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Report to Congressional Requesters

February 2012

COMMUNITY DEVELOPMENT

Limited Information on the Use and Effectiveness of Tax Expenditures Could Be Mitigated through Congressional Attention

GAO

Accountability * Integrity * Reliability

GAO-12-262

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Highlights

Highlights of GAO-12-262, a report to congressional requesters

Why GAO Did This Study

Tax expenditures—exclusions, credits, deductions, deferrals, and preferential tax rates—are one tool the government uses to promote community development. Multiple tax expenditures contribute to community development.

GAO (1) identified community development tax expenditures and potential overlap and interactions among them; (2) assessed the data and performance measures available and used to assess their performance; and (3) determined what previous studies have found about selected tax expenditures' performance.

GAO identified community development activities using criteria based on various federal sources and compared them with authorized uses of tax expenditures. GAO reviewed agency documents and interviewed officials from the Internal Revenue Service (IRS) and five other agencies. GAO also reviewed empirical studies for selected tax expenditures, including the New Markets Tax Credit and Empowerment Zone program which expired in 2011.

What GAO Recommends

Congress may wish to provide OMB guidance on whether community development should be among OMB's long-term crosscutting priority goals, stress the need for evaluations, and focus attention on addressing community development tax expenditure performance issues through its oversight activities. Two agencies questioned the matters for congressional consideration or findings. GAO believes its analysis and matters remain valid as discussed in the report.

View GAO-12-262. For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

What GAO Found

GAO identified 23 community development tax expenditures available in fiscal year 2010. For example, five ($1.5 billion) targeted economically distressed areas, and nine ($8.7 billion) supported specific activities such as rehabilitating structures for business use. The design of each community development tax expenditure appears to overlap with that of at least one other tax expenditure in terms of the areas or activities funded. Federal tax laws and regulations permit use of multiple tax expenditures or tax expenditures with other federal spending programs, but often with limits. For instance, employers cannot claim more than one employment tax credit for the same wages paid to an individual. Besides IRS, administering many community development tax expenditures involves other federal agencies as well as state and local governments. For example, the National Park Service oversees preservation standards for the 20 percent historic rehabilitation tax credit. Fragmented administration and program overlap can result in administrative burden, such as applications to multiple federal agencies to fund the needs of a distressed area or finance a specific project.

Limited data and measures are available to assess community development tax expenditures' performance. IRS only collects information needed to administer the tax code or otherwise required by law, and IRS data often do not identify the specific communities assisted. Other federal agencies helping administer community development tax expenditures also collect limited information on projects and associated outcomes. GAO has long recommended that the Executive Branch improve its ability to assess tax expenditures, but little progress has been made in developing an evaluation framework. Generally, neither these agencies, nor the Department of the Treasury or the Office of Management and Budget (OMB) have assessed or plan to assess community development tax expenditures individually or as part of a crosscutting review. The Government Performance and Results Act Modernization Act of 2010 (GPRAMA) calls for a more coordinated approach to focusing on results and improving performance. OMB is to select a limited number of long-term, outcome-oriented crosscutting priority goals and assess whether the relevant federal agencies and activities—including tax expenditures—are contributing to these goals. These assessments could help identify data needed to assess tax expenditures and generate evaluations of tax expenditures' effect on community development. Through related GPRAMA consultations agencies are to have with Congress, Congress has a continuing opportunity to say whether it believes community development should be among the limited number of governmentwide goals. While community development was not on the interim priority list, Congress also can urge more evaluation and focus attention on community development performance issues through oversight activities.

In part due to data and methodological limitations, previous studies have not produced definitive results about the effectiveness of the New Markets Tax Credit, Empowerment Zone tax incentives, historic rehabilitation tax credits, and tax aid for certain disaster areas. A key methodological challenge is demonstrating a causal relationship between community development efforts and economic growth in a specific community. As a result, policymakers have limited information about the tax expenditures reviewed, including those that expired after 2011, and ways to increase effectiveness.

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Abbreviations

AMGI	area median gross income
BAB	Build America Bond
CDBG	Community Development Block Grant
CDE	community development entity
CDFI Fund	Community Development Financial Institutions Fund
CFDA	Catalog of Federal Domestic Assistance
CIIS	Community Investment Impact System
CRA	Community Revitalization Act
CRD	Commercial Revitalization Deduction
CRS	Congressional Research Service
EPA	Environmental Protection Agency
EZ/RC	Empowerment Zones/Renewal Communities
GO Zone	Gulf Opportunity Zone
GPRAMA	Government Performance and Results Act Modernization Act of 2010
HFA	housing finance agency
HUD	Department of Housing and Urban Development
IRS	Internal Revenue Service
JCT	Joint Committee on Taxation
LIHTC	Low-Income Housing Tax Credit
NMTC	New Markets Tax Credit
NPS	National Park Service
OMB	Office of Management and Budget
PART	Program Assessment Rating Tool
PERMS	Performance Measurement System
QZAB	Qualified Zone Academy Bond
RZEDB	Recovery Zone Economic Development Bond
RZFB	Recovery Zone Facility Bond
SBA	Small Business Administration
SHPO	state historic preservation office
TCAP	Tax Credit Assistance Program
USDA	U.S. Department of Agriculture

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Congressional Requesters

Community development programs, if designed and administered efficiently and effectively, can contribute to citizens' well-being at the least cost to taxpayers. Community development encompasses a wide range of activities, including certain economic development activities such as strategies for reducing unemployment as well as constructing roads and sewer systems to attract industry. Community development programs may also fund construction and rehabilitation of commercial structures. In addition to tens of billions of dollars annually in grants, loans, and loan guarantees, the federal government provides community development funding channeled through the tax code. As we reported in March 2011, tax expenditures—exclusions, credits, deductions, deferrals, and preferential tax rates—and the wide range of other policy tools used can contribute to mission fragmentation and program overlap.[1]

Federal agencies do not have a standard definition of what constitutes community or economic development. For our May 2011 report on potential overlap and fragmentation in economic development programs, we identified programs—largely in the form of grants, loan guarantees, or direct loans—using a list of nine activities most often associated with economic development.[2] Our work involving 80 economic development programs at four agencies— the Departments of Commerce (Commerce), Housing and Urban Development (HUD), and Agriculture (USDA) and the Small Business Administration (SBA)—indicates that the design of each

[1] GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP (Washington, D.C.: Mar. 1, 2011). An interactive, web-based version of the report is available at http://www.gao.gov/ereport/gao-11-318SP.

[2] GAO*, Efficiency and Effectiveness of Fragmented Economic Development Programs Are Unclear*, GAO-11-477R (Washington, D.C.: May 19, 2011). Economic development activities include, but are not limited to, planning and developing strategies for job creation and retention, developing new markets for existing products, building infrastructure by constructing roads and sewer systems to attract industry to undeveloped areas, and establishing business incubators to provide facilities for new businesses' operations. For a fuller description of economic development activities, see GAO, *Rural Economic Development: More Assurance Is Needed That Grant Funding Information Is Accurately Reported*, GAO-06-294 (Washington, D.C.: Feb. 24, 2006).

of these programs appeared to overlap with that of at least one other program in terms of the economic development activities that they are authorized to fund. Our May 2011 work did not include tax expenditures aimed at economic development.

Given your interest in community development and the effectiveness of federal tax expenditures, we (1) identified tax expenditures that promote community development and areas of potential overlap and interactions among them, (2) assessed data and performance measures available and used to assess performance for community development tax expenditures, and (3) determined what previous studies have found about the effectiveness of selected tax expenditures in promoting community development.

To identify community development tax expenditures, we developed a list of community development activities based on various federal sources and compared these activities to the authorized uses of tax expenditures. We identified community development activities from the federal budget definition of community and regional development, the *Catalog of Federal Domestic Assistance*'s descriptions of spending programs under the community and regional development budget function, and descriptions of allowable uses under the Community Development Block Grant program. Finally, we identified certain tax expenditures that banks can use to meet their community development investment tests under the Community Reinvestment Act (CRA).[3] We compiled the tax expenditures for fiscal year 2010 reported by the Department of the Treasury (Treasury) and the Joint Committee on Taxation (JCT) under the community and regional development budget function, and we included other tax expenditures listed by Treasury that appeared to be at least partially intended to support activities we had identified as community development activities. We discussed our preliminary universe and selection rationale with officials from Treasury, the Internal Revenue Service (IRS), and the Office of Management and Budget (OMB) and other federal agencies knowledgeable about these tax expenditures, and we refined the universe

[3] The Community Reinvestment Act (CRA) requires regulators to evaluate periodically each insured depository institution's record in helping meet the credit needs of its entire community. That record is taken into account in considering an institution's application for deposit facilities, including mergers and acquisitions. Investing in certain community development projects that qualify for tax incentives can help banks earn positive consideration toward their CRA regulatory ratings.

as needed.[4] For fiscal year 2010, we identified 23 community development tax expenditures, including six legislative packages that supported disaster relief and recovery.[5] Additionally, we used JCT and IRS documents to identify specific tax provisions available for certain disaster areas.

To identify areas of potential overlap among the community development tax expenditures, we used the definitions from our March 2011 report on duplication in government programs:

- Overlap occurs when multiple agencies or programs have similar goals, similar activities or strategies to achieve them, or similar target beneficiaries;
- Fragmentation refers to circumstances where multiple agencies or offices are involved in serving the same broad area of national need; and
- Duplication occurs when two or more agencies or programs are engaged in the same activities or provide the same services to the same beneficiaries. The presence of overlap and fragmentation can suggest the need to look closer at the potential for unnecessary duplication.[6]

We compiled publicly available information about each tax expenditure's design and implementation, including descriptions, target geographies or beneficiaries, volume caps and other allocation limits, and roles of agencies involved in administration. We reviewed the Internal Revenue Code and IRS regulations to identify allowable interactions or limits on using community development tax expenditures together; where specified in tax law and regulations, we also identified limits on using tax

[4] These agencies included the Congressional Research Service (CRS); Community Development Financial Institutions Fund (CDFI Fund); Department of Housing and Urban Development (HUD); and National Park Service (NPS).

[5] Appendix II lists the 23 tax expenditures. We counted, as one tax expenditure, an entry from the Treasury and JCT tax expenditures lists. Some tax expenditures include multiple provisions, and in those cases, we identified the specific provisions as well. Appendix IV details the multiple provisions available for Empowerment Zones and Renewal Communities, and appendix VI lists multiple provisions included in the six legislative packages supporting disaster relief and recovery.

[6] GAO-11-318SP.

expenditures with other federal spending programs.[7] Based on the information we collected and the clarifications that the agencies provided, we determined that the tax expenditure descriptive data were sufficiently reliable for identifying potential overlap, duplication, and fragmentation.

To determine what data and performance measures are available for community development tax expenditures, we identified the data elements and types of information that IRS and federal agencies collect. We also reviewed tax forms, instructions, and other guidance and interviewed IRS officials. For certain community development tax expenditures where other federal agencies help with administration, we also reviewed our prior work and interviewed and collected information from the Community Development Financial Institutions Fund (CDFI Fund) within Treasury; HUD; and National Park Service (NPS). We interviewed officials and reviewed documentation from OMB, Treasury, IRS, HUD, and NPS about efforts to assess performance for community development tax expenditures and any crosscutting reviews of related tax and spending programs.

To determine what is known about effectiveness for selected tax expenditures, we selected the Empowerment Zone/Renewal Community (EZ/RC) tax programs, the New Markets Tax Credit (NMTC), and tax expenditures temporarily available for certain disaster areas. We selected these because they accounted for most of the 2010 revenue loss for tax expenditures that primarily promote community development. Some expired as of December 31, 2011.[8] We also selected the rehabilitation tax credits because they can be used in combination with other community development tax expenditures. We reviewed studies with original data analysis or empirical or peer-reviewed research that attempted to measure impact, such as changes in poverty and unemployment. We also summarized our prior findings about the selected tax expenditures.

[7] We did not search documentation from all federal agencies carrying out community and economic development programs, and regulations for related spending may also document interactions between those programs and the community development tax expenditures.

[8] The EZ tax incentives and NMTC expired after December 31, 2011; the RC tax incentives expired after December 31, 2009. On occasion, Congress has chosen to extend retroactively tax provisions that have expired. For example, a law that was signed in December of 2010, retroactively extended the EZ tax incentives which had expired on December 31, 2009, until December 31, 2011. Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, Pub. L. No. 111-312, § 753.

Findings from the studies and our prior reports are not generalizable to the universe of community development tax expenditures. Appendix I contains more details about our scope and methodology.

We conducted this performance audit from January 2011 through February 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Tax expenditures are preferential provisions in the tax code, such as exemptions and exclusions from taxation, deductions, credits, deferral of tax liability, and preferential tax rates that result in forgone revenue for the federal government. The revenue that the government forgoes is viewed by many analysts as spending channeled through the tax system. However, tax expenditures and their relative contributions toward achieving federal missions and goals are often less visible than spending programs, which are subject to more systematic review. Many tax expenditures—similar to mandatory spending programs—are governed by eligibility rules and formulas that provide benefits to all those who are eligible and wish to participate. Tax expenditures do not compete overtly with other priorities in the annual budget, and spending embedded in the tax code is effectively funded before discretionary spending is considered. Tax expenditures generally are not subject to congressional reauthorization and, therefore, lack the opportunity for regular review of their effectiveness.

We have long recommended greater scrutiny of tax expenditures.[9] Some tax expenditures may be ineffective at achieving their social or economic purposes, and information about their performance as well as periodic evaluations can help policymakers make more informed decisions about resource allocation and the most effective or least costly methods to deliver federal support. Performance measurement is the ongoing

[9] See GAO, *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined*, GAO-05-690 (Washington, D.C.: Sept. 23, 2005), and *Tax Policy: Tax Expenditures Deserve More Scrutiny*, GAO/GGD/AIMD-94-122 (Washington, D.C.: June 3, 1994).

monitoring and reporting that focuses on whether programs have achieved objectives in terms of the types and levels of activities or outcomes of those activities. Program evaluations typically examine a broader range of information on program performance and its context than is feasible to monitor on an ongoing basis. A "program" may be any activity, project, function, or policy that has an identifiable purpose or set of objectives, including tax expenditures. In the context of community development programs, impact evaluations can be a useful tool to assess the net effect of a program by comparing program outcomes with an estimate of what would have happened in the absence of the program. This form of evaluation is employed when external factors are known to influence the program's outcomes, in order to isolate the program's contribution to achievement of its objectives.[10] Importantly, challenges in performance measurement and evaluation are not unique to tax expenditures as agencies have encountered difficulties in measuring the performance of spending programs as well.

The Government Performance and Results Act (GPRA) Modernization Act of 2010 (GPRAMA) establishes a new framework aimed at taking a more crosscutting and integrated approach to focusing on results and improving government performance.[11] It requires OMB, in coordination with agencies, to develop—every 4 years—long-term, outcome-oriented goals for a limited number of crosscutting policy areas. On an annual basis, OMB is to provide information on how these long-term crosscutting goals will be achieved. Most of the enhanced planning and reporting requirements at both the governmentwide and agency levels are to be implemented in 2012 and beyond. GPRAMA also significantly enhances requirements for agencies to consult with Congress when establishing or adjusting governmentwide and agency goals. OMB and agencies are to consult with relevant committees, obtaining majority and minority views, about proposed goals at least once every 2 years. GPRAMA makes clear that tax expenditures are to be included in identifying the range of federal agencies and activities that contribute to crosscutting goals. Moving forward, effective GPRAMA implementation can help inform tough

[10] GAO, *Performance Measurement and Evaluation: Definitions and Relationships*, GAO-11-646SP (Washington, D.C.: May 2, 2011).

[11] Pub. L. No. 111-352, 124 Stat. 3866 (2011). GPRAMA amends the Government Performance and Results Act of 1993, Pub. L. No. 103-62, 107 Stat. 285 (1993).

choices in setting priorities as government policymakers address the rapidly building fiscal pressures facing our national government.

Overlap Exists in the Design of Community Development Tax Expenditures

Multiple Tax Expenditures Fund Community Development Activities

For fiscal year 2010, we identified 23 tax expenditures that fund community development activities.[12] Appendix II lists each tax expenditure with information on its estimated cost, type, and taxpayer group, as well as enactment and expiration dates. Five tax expenditures primarily promote community development in economically distressed areas, including Indian reservations; these programs cost the federal government approximately $1.5 billion in fiscal year 2010.[13] Nine tax expenditures both support community development and address other federal mission areas, such as rehabilitating historic or environmentally contaminated properties for business use as well as constructing a range of transportation facilities, such as airports and docks, and water and hazardous waste systems. These multipurpose tax expenditures cost the federal government approximately $8.7 billion in fiscal year 2010.[14] Two large state and local bond tax expenditures also may support community development, although community development activities account for only a portion of the total costs of those tax expenditures. Finally, the federal government has periodically offered temporary tax relief following certain disasters, including six packages of tax provisions focused on specific areas as well as one provision available for any presidentially declared disaster area. Figure 1 illustrates the mix of various tax expenditures that support community development.

[12] See appendix I for details on our scope and methodology.

[13] This figure includes $1.46 billion in estimated revenue losses and $60 million in outlays.

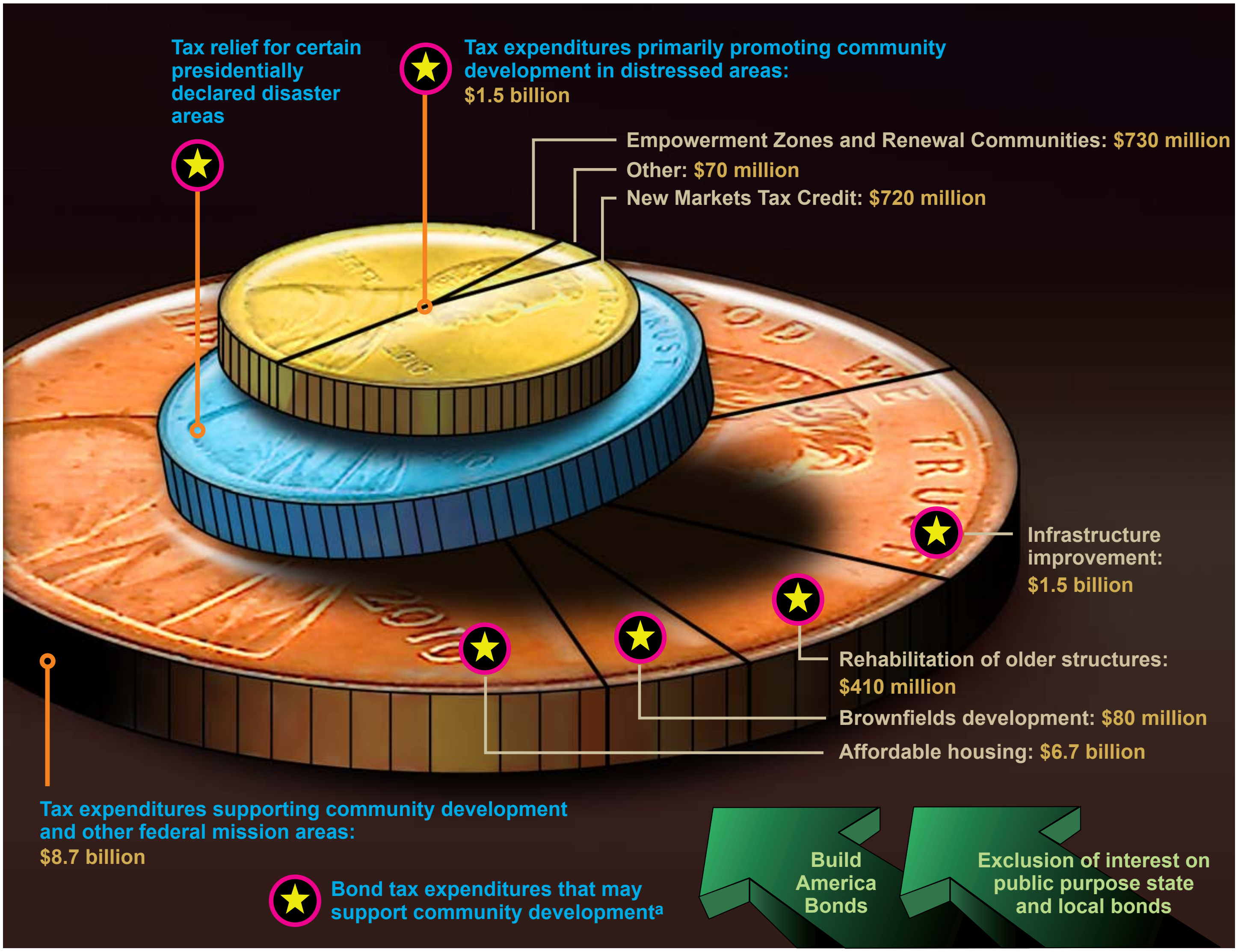
[14] This figure includes $8.68 billion in estimated revenue losses and $10 million in outlays.

Interactive graphic

Figure 1: Multiple Tax Expenditures Fund Community Development, Fiscal Year 2010

Directions:

Mouse over buttons for additional breakdown information



Source: GAO analysis of Treasury and Joint Committee on Taxation (JCT) information.

[a]While these bond tax expenditures may support community development, community development activities account for only a portion of the bond provisions' costs.

Print instructions | To print full text version of this graphic, go to appendix III

Five Community Development Tax Expenditures Target Economically Distressed Areas

The federal government has five tax expenditures primarily to promote community development in economically distressed areas, such as low-income communities and Indian reservations.[15] As noted below, all but one of these programs have expired.[16]

- The Empowerment Zones and Renewal Communities (EZ/RC) programs ($730 million in revenue losses in fiscal year 2010) were established to reduce unemployment and generate growth in economically distressed communities that were designated through a competitive process.[17] Initially, the EZ program offered a mix of grants and tax incentives for community and economic development, but later EZ rounds and the RC program offered primarily tax incentives for business development.[18] While eligibility varied slightly by program and round, the 40 EZ- and 40 RC-designated communities were selected largely on the basis of poverty and unemployment rates, population, and other area statistics based on Decennial Census data.[19] The RC tax provisions expired at the end of 2009, and the EZ tax provisions expired at the end of 2011.

- The New Markets Tax Credit (NMTC) ($720 million in revenue losses in fiscal year 2010) encourages investment in impoverished, low-income communities that traditionally lack access to capital. Whereas the EZ/RC programs target designated communities, the NMTC targets Census tracts where the poverty rate is at least 20 percent or where median family incomes do not exceed 80 percent of such incomes within a state or a metropolitan area. In January 2010, we reported that 39 percent of the Census tracts qualified for the NMTC

[15] Appendix IV contains descriptions of each tax expenditure as well as information about the geographies and populations targeted.

[16] We included expired tax expenditures listed by Treasury or JCT which had estimated revenue losses or outlays in fiscal year 2010. See appendix II for specific expiration dates.

[17] GAO, *Revitalization Programs: Empowerment Zones, Enterprise Communities, and Renewal Communities*, GAO-10-464R (Washington, D.C.: Mar. 12, 2010).

[18] Appendix IV lists seven EZ and six RC tax incentives available in designated communities.

[19] The 40 EZs include 30 urban and 10 rural communities, and the 40 RCs include 28 urban and 12 rural communities. In most cases, the EZ/RC designation requirements were based on 1990 Census data. The RC designations expired at the end of 2009, and the EZ designations expired at the end of 2011.

program and 36 percent of the U.S. population lived in these Census tracts.[20] The NMTC expired at the end of 2011.

- Two tax expenditures—Tribal Economic Development Bonds and Indian employment credit—target Indian tribal reservations.[21] Indian tribes are among the most economically distressed groups in the United States, and tribal reservations often lack basic infrastructure commonly found in other American communities, such as water and sewer systems as well as telecommunications lines.[22] Created under the American Recovery and Reinvestment Act of 2009 (the Recovery Act), the temporary bond authority ($10 million in revenue losses in fiscal year 2010) provided tribal governments with greater flexibility to use tax-exempt bonds to finance economic development projects.[23] The $2 billion bond authority was to be allocated by February 2010, but Treasury and IRS have extended deadlines to reallocate unused bond authority.[24] The Indian employment credit expired at the end of 2011.[25]

- The Recovery Act also created temporary Recovery Zone bonds—including Recovery Zone Economic Development Bonds and

[20] See GAO, *New Markets Tax Credit: The Credit Helps Fund a Variety of Projects in Low-Income Communities, but Could Be Simplified*, GAO-10-334 (Washington, D.C.: Jan. 29, 2010).

[21] The Indian reservation depreciation provision also permitted taxpayers to accelerate their depreciation for certain property used by businesses on Indian reservations. This provision expired at the end of 2011. While the Indian reservation depreciation provision supported community development, we did not include the provision in the universe because it is not listed in either the Treasury or JCT tax expenditure lists we reviewed. For more information on the provision, see GAO, *Tax Expenditures: Available Data Are Insufficient to Determine the Use and Impact of Indian Reservation Depreciation*, GAO-08-731 (Washington, D.C.: June 26, 2008).

[22] See GAO, *Telecommunications: Challenges to Assessing and Improving Telecommunications For Native Americans on Tribal Lands*, GAO-06-189 (Washington, D.C.: Jan. 11, 2006).

[23] We previously reported on restrictions on Indian tribal governments' use of tax-exempt bonds; see GAO, *Federal Tax Policy: Information on Selected Capital Facilities Related to the Essential Governmental Function Test*, GAO-06-1082 (Washington, D.C.: Sept. 13, 2006).

[24] According to Treasury, tribal bonds issued as of November 2011 represented less than 3 percent of the available authority.

[25] JCT estimated fiscal year 2010 revenue losses were less than $50 million.

Recovery Zone Facility Bonds allocated among the states and counties and large municipalities within the states based on unemployment losses in 2008. These bond authorities ($60 million in outlays in fiscal year 2010) expired at the end of 2010.

Four of the five community development tax expenditures targeted to economically distressed areas have a statutory limit, such as a specified number of community designations, volume cap, or allocation amount, as shown in table 1. Although the allocation processes varied, these tax expenditures resemble grants in that an agency—either a federal agency or a state or local government—selects the qualifying communities, community development entities (CDE), or projects to receive the limited allocation available.[26]

- For the EZ/RC program, communities nominated by their state and local governments had to submit a strategic plan showing how they would meet key EZ program principles or a written "course of action" with commitments to carry out specific legislatively mandated RC activities. In selecting the designated communities, HUD and USDA were required to rank EZ nominees based on the effectiveness of their plans, but HUD was required to designate RCs based in part on poverty, unemployment, and, in urban areas, income statistics.[27] For designated EZs and RCs, state and local governments were responsible for allocating certain tax provisions with specified limits, including the RC Commercial Revitalization Deduction and EZ Facility bonds.

- For the NMTC program, the annual tax credit allocation limit was $3.5 billion for fiscal years 2010 and 2011. The CDFI Fund awards tax credit allocations to winning CDE applicants based on application scoring by peer review panels. The CDEs, in turn, invest in qualified low-income community investments. As of November 1, 2011, the CDFI Fund had allocated $29.5 billion in NMTC authority available from 2001 to 2010 and announced $3.6 billion in 2011 tax credit allocations on February 23, 2012.

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[26] See appendix V for details on volume caps and other allocation limits, and federal and non-federal entities involved in the administration of the tax expenditures.

[27] For more on the selection process, see GAO, *Community Development: Federal Revitalization Programs Are Being Implemented, but Data on the Use of Tax Benefits Are Limited*, GAO-04-306 (Washington, D.C.: Mar. 5, 2004).

- For the Recovery Zone bond programs, the national volume cap was $10 billion for Recovery Zone Economic Development Bonds and $15 billion for Recovery Zone Facility Bonds. State and local governments were responsible for allocating bond issuance authority to specific projects. Tribal Economic Development Bonds had a national volume cap of $2 billion. Tribal governments applied for allocations to issue bonds for specific projects.

Table 1: Four Tax Expenditures Promoting Community Development in Distressed Areas Resemble Grants with an Entity Selecting Who Receives the Limited Allocation Available

Tax expenditure	Volume caps or other allocation limits?	Involvement of federal entities outside IRS?	Involvement of nonfederal entities?
Empowerment Zones and Renewal Communities (EZ/RC)	Yes[a]	Yes	Yes
New Markets Tax Credit (NMTC)	Yes	Yes	Yes
Recovery Zone bonds[b]	Yes	Yes	Yes
Tribal Economic Development Bonds	Yes	Yes	Yes
Indian employment credit	No	No	No

Source: GAO analysis.

Note: See appendix V for more information on volume caps or other allocation limits for each tax expenditure, as well as involvement of federal and nonfederal entities in administering such tax expenditures.

[a]EZ/RC program had limits on the numbers of community designations. Certain EZ/RC tax incentives also had volume caps or allocation limits: the Commercial Revitalization Deduction (RC), Facility Bond (EZ), and Qualified Zone Academy Bond (EZ/RC).

[b]Includes Recovery Zone Economic Development Bonds and Recovery Zone Facility Bonds.

Other tax expenditures available in economically distressed communities are comparable to entitlement programs for which spending is determined by statutory rules for eligibility, benefit formulas, and other parameters rather than by Congress appropriating specific dollar amounts each year.[28] Such tax expenditures typically make funds (through reduced taxes) available to all qualified claimants, regardless of how many taxpayers claim the tax expenditures, how much they claim collectively, or how much federal revenue is reduced by these claims. For example, businesses may claim Indian employment tax credits for employing Indian tribal members and their spouses without limit on the numbers or total

[28] Entitlement statutes provide the authority to make payments to any person or government if, under the provisions of the law containing that authority, the United States is obligated to make such payments to persons or governments who meet the requirements established by that law.

amounts of claims. Similarly, businesses located in EZs and RCs may claim the EZ/RC Employment Credit and the Work Opportunity Tax Credit for employing eligible residents within an EZ or RC area without an aggregate limit on such tax credits.[29]

Some Tax Expenditures Support Community Development and Other Federal Mission Areas

The tax expenditures that promote community development as well as other federal mission areas—such as producing affordable housing or redeveloping brownfields[30]—all fund certain types of properties and infrastructure, as illustrated above in figure 1. Seven of these tax expenditures have no expiration date and thus are not subject to regular reauthorization.[31]

- Four tax expenditures contribute to community development by revitalizing certain properties for business use. Two tax incentives are available for rehabilitating older structures—a tax credit applied to 20 percent of eligible costs for rehabilitating certified historic structures and a tax credit applied to 10 percent of eligible costs for rehabilitating other structures built before 1936.[32] Two brownfields tax expenditures were intended to reduce costs to clean up environmentally damaged property. The exclusion of gain or loss on the sale or exchange of certain brownfield sites reduces the cost of remediating and reselling brownfields by tax-exempt organizations. The expensing of environmental remediation costs subsidizes environmental cleanup costs and may help revitalize areas depressed due to environmental contamination. The exclusion of gain or loss on the sale or exchange of certain brownfield sites applies only to properties acquired by the

[29] Businesses may claim up to $3,000 or $1,500 of employment credits for each employee living and working for the employer in an EZ or RC area, respectively. Also, businesses may claim a Work Opportunity Tax Credit of up to $2,400 for each new employee age 18 to 39 living in an EZ or RC area, or up to $1,200 for a youth summer hire. These two tax credits cannot be claimed together for the same employee. The aggregate value of these credits taken by taxpayers is not limited.

[30] The term "brownfield site" means real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant.

[31] See appendix II for estimated costs, types, and taxpayer groups for individual tax provisions, as well as enactment and expiration dates.

[32] Both tax credits cannot be claimed for a single rehabilitation project. Eligible expenditures include costs incurred for rehabilitation and reconstruction of certain older buildings. Rehabilitation includes renovation, restoration, and reconstruction and does not include expansion or new construction.

end of 2009, and the expensing of environmental remediation costs expired at the end of 2011.[33]

- Two tax expenditures fund production of affordable rental housing for low-income households—the Low-Income Housing Tax Credit (LIHTC) and tax-exempt rental housing bonds. Under the LIHTC, a 9 percent tax credit is available for new construction or substantial rehabilitation projects not otherwise subsidized by the federal government, and a 4 percent tax credit is available for the projects receiving other federal subsidies including rental bond financing.[34] Affordable housing projects must satisfy one of two income-targeting requirements: 40 percent or more of the units must be occupied by households whose incomes are 60 percent or less of the area median gross income, or 20 percent or more of the units are occupied by households whose incomes are 50 percent or less of the area median gross income. For fiscal year 2010, two grant programs also helped provide gap financing for LIHTC housing development following disruption of the tax credit market in 2008.[35]

Federally tax-exempt and tax credit bonds issued by state and local governments also contribute to community development and other federal mission areas by financing infrastructure improvements and other

[33] We included the expired exclusion provision because it was listed by Treasury with estimated revenue losses in fiscal year 2010.

[34] LIHTCs are claimed annually over a 10-year period and subject to a 15-year compliance period to avoid tax credit recapture.

[35] The Recovery Act established two temporary funding programs that provided capital investments to LIHTC projects: (1) the Tax Credit Assistance Program (TCAP) administered by HUD and (2) the Grants to States for Low-Income Housing Projects in Lieu of Low-Income Housing Credits Program under Section 1602 of the Recovery Act (Section 1602 Program) administered by Treasury. TCAP provided gap financing to be used by state housing finance agencies (HFA) in the form of grants or loans for capital investment in LIHTC projects that were awarded tax credits in fiscal year 2007, 2008, or 2009; project owners were to spend all TCAP funds by February 2012. Designed to be used in lieu of tax credits, the Section 1602 Program allowed state HFAs to exchange a portion of their 2009 ceiling (up to 100 percent of unused 2008 LIHTC and 40 percent of their 2009 allocation) for grant funds from Treasury at the rate of 85 cents for every tax credit dollar, and then award proceeds to finance the construction or acquisition and rehabilitation of qualified low-income buildings.

projects.[36] For example, state and local governments may issue private activity bonds to finance airports, docks, and other transportation infrastructure; large business projects tied to the employment of residents in Empowerment Zones; and water or wastewater facilities that enable communities to meet community facilities needs and support development.[37] Qualified Zone Academy Bonds (QZAB)—the authority for which expired at the end of 2011—may be used for renovating school facilities, purchasing equipment, developing course materials, or training personnel at qualified public schools in economically distressed areas including designated EZs or RCs.[38] Whereas private activity bonds are used to support specific private activities and facilities often intended to generate economic development, state and local governments may also issue tax-exempt public-purpose state and local bonds and Build America Bonds (BAB) to help finance public infrastructure and facilities.[39] In 2008, we reported that a majority of state and local bonds issued in 2006 were allocated for education or general purposes; for the latter category, it was not clear what activities or facilities were funded by the bonds.[40] Given that community development activities comprise only a portion of governmental bonds, we did not sum the revenue losses for the two

[36] In the case of tax-exempt bonds, investors are allowed to exclude interest earned on the bonds from their federal taxable income during each year that they receive interest payments. The tax exemption lowers the bond issuer's borrowing costs and may provide equivalent or higher after-tax yields to investors than alternative investments that are not tax-exempt. For tax credit bonds, investors receive a tax credit or direct reduction in tax liability, equal to a percentage of the bond's face value for a certain number of years. Issuers may also have the option to receive a direct payment from the U.S. Treasury of equal value to the tax credit.

[37] Private activity bonds can be either taxable or tax-exempt. For example, interest paid on bonds can qualify as tax-exempt if the bonds are used by 501(c)(3) nonprofit organizations or by governmental authorities specifically established to support qualified private activities, such as airports, docks, wharves, and other facilities often intended to generate economic development.

[38] Schools are also eligible for QZABs if 35 percent or more of students are eligible for free or reduced-price school meals. No allocation of QZAB tax credits is permitted after 2011, though claimants are allowed to carry forward the provisions for 2 years.

[39] BABs were enacted under the American Recovery and Reinvestment Act of 2009, and the authority to issue BABs expired at the end of 2010. We included this tax expenditure listed by Treasury and JCT because it had estimated outlays in fiscal year 2010.

[40] See GAO, *Tax Policy: Tax-Exempt Status of Certain Bonds Merits Reconsideration, and Apparent Noncompliance with Issuance Cost Limitations Should Be Addressed*, GAO-08-364 (Washington, D.C.: Feb. 15, 2008).

general bond provisions to avoid overstating federal support for community development.

As shown in table 2, all of the multipurpose community development tax expenditures involve other entities in addition to IRS in administering the tax benefits.[41] Five multipurpose tax expenditures resemble grants in that state and local governments oversee the allocation process to select qualifying projects to receive the limited allocation available. For the LIHTC for example, state housing finance agencies (HFA) award 9 percent credits to developers for low-income housing projects based on each state's qualified allocation plan, which generally establishes a state's funding priorities and selection criteria. Although the federal government does not set specific limits for general-purpose state and local bonds and BABs, private activity bond financing—including for rental housing and water systems—is generally subject to an annual volume cap for each state, and QZABs and bond financing for certain transportation facilities also have statutory allocation limits.[42]

[41] See appendix V for a list of volume caps and other allocation limits, and federal and nonfederal entities involved in the administration of the tax expenditure provisions.

[42] For 2010, the private activity bond volume cap for each state was equal to the greater of $90 per capita or about $273.8 million.

Table 2: Tax Expenditures Supporting Community Development and Other Mission Areas—Statutory Limits and Involvement of Entities outside IRS

Tax expenditure	Volume caps or other allocation limits?	Involvement of federal entities outside IRS?	Involvement of nonfederal entities?
Low-Income Housing Tax Credit (LIHTC)	Yes	No[a]	Yes
20 percent credit for rehabilitation of historic structures	No	Yes	Yes
10 percent credit for rehabilitation of structures (other than historic)	No	Yes	Yes
Exclusion of gain or loss on sale or exchange of certain brownfield sites	No	Yes[b]	Yes
Expensing of environmental remediation costs	No	Yes[b]	Yes
Exclusion of interest on rental housing bonds	Yes[c]	No	Yes
Exclusion of interest for airport, dock, and similar bonds	Yes[d]	No	Yes
Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	Yes[c]	No	Yes
Credit for holders of qualified zone academy bonds (QZAB)	Yes	Yes	Yes
Exclusion of interest on public purpose State and local bonds	No	No	Yes
Build America Bonds	No	No	Yes

Source: GAO analysis.

Notes: See appendix V for more information on volume caps or other allocation limits for each tax expenditure, as well as involvement of federal and nonfederal entities in administering such tax expenditures.

[a]While no federal entity besides IRS is responsible for administering the LIHTC, HUD maintains a LIHTC database with information on the number of units and low-income units, number of bedrooms, year the credit was allocated, year the project was placed in service, whether the project was new construction or rehabilitation, type of credit provided, and other sources of project financing.

[b]EPA maintains a National Priority List of properties; such listed properties are ineligible for the tax incentive.

[c]Subject to private activity bond annual volume cap for each state.

[d]Limits varied for specific facilities. Bonds for the construction of mass commuting facilities, and 25 percent of bond issues for privately owned intercity rail facilities, are included in the private activity bond annual state volume cap (government-owned facilities are exempted). Bonds for airports, docks and wharves are not subject to the private-activity bond volume cap or other restrictions.

The rehabilitation and brownfields tax expenditures resemble entitlement programs in that these tax incentives have no allocation limits and are available to all eligible claimants. In addition to IRS's role in administering tax law, other federal and state agencies play a role in certifying that the properties are eligible for tax benefits. For the 20 percent rehabilitation tax credit for certified historic structures, the NPS, with the assistance of State Historic Preservation Offices, certifies historic structures, approves rehabilitation applications, and confirms that completed rehabilitation projects meet the Secretary of Interior's Standards of Rehabilitation. For the brownfields tax expenditures, state environmental agencies certify eligible properties.

Temporary Tax Relief Provided for Certain Disaster Areas

The federal government has offered various mixes of temporary tax incentives and special rules to stimulate business recovery and provide relief to individuals after certain major disasters.[43] See appendix VI for a detailed list of 45 tax benefits made available for specific disaster areas.[44] Business recovery is a key element of a community's recovery after a major disaster. To assist New York in recovering from the September 11, 2001, terrorist attacks, Congress passed a 2002 package with seven tax benefits targeted to the Liberty Zone in lower Manhattan.[45] In the aftermath of the 2005 Gulf Coast hurricanes, Congress enacted the Gulf Opportunity Zone Act of 2005 (GO Zone Act) offering 33 tax benefits in part to promote business recovery and provide debt relief for states.[46] A 2007 Kansas disaster relief package provided 13 tax benefits for 24 counties in Kansas affected by storms and tornadoes that began on May 4, 2007.[47] A 2008 midwest disaster relief package targeted 26 tax benefits for selected counties in 10 states affected by tornadoes, severe storms, and flooding from May 20 through July 31, 2008.[48] Also in 2008, Congress enacted a package offering eight tax benefits available to any

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[43] Some tax expenditures are regularly available for losses attributable to disasters. Whereas net operating losses are typically carried back 2 years or carried forward 20 years, small businesses and farming businesses may carry back casualty losses attributable to presidentially declared disasters for 3 years. Additionally, taxpayers generally may claim itemized deductions for casualty or theft losses exceeding $100 per event and 10 percent of adjusted gross income.

[44] Appendix II has revenue loss estimates for the disaster tax expenditures for fiscal year 2010. Revenue loss estimates are based on data about tax benefits claimed. Appendix VI has revenue estimates for each disaster package as projected at time of enactment. Revenue estimates were based on projections of taxpayer use of tax benefits available, and actual use of some provisions may have been lower than anticipated at time of enactment.

[45] Job Creation and Worker Assistance Act of 2002 (Pub. L. No. 107-147, 116 Stat. 21).

[46] Pub. L. No. 109-135, 119 Stat. 2577 (Dec. 21, 2005). The Katrina Emergency Tax Relief Act of 2005 (Pub. L. No. 109-73, 119 Stat. 126), enacted in August 2005, initially provided 19 tax incentives for the Hurricane Katrina disaster area.

[47] Food, Conservation, and Energy Act of 2008 (Pub. L. No. 110-246, 122 Stat. 1651).

[48] Tax Extenders and the Alternative Minimum Tax Relief Act of 2008 (Div. C of Pub. L. No. 110-343, 122 Stat. 3861).

individual or business located in any presidentially declared disaster area during calendar years 2008 and 2009.

The preponderance of the disaster tax incentives offered in the six legislative packages we examined were modifications of existing tax expenditures, including increased allocations for the NMTC, LIHTC, rehabilitation tax credits, and tax-exempt bond financing.[49] Several tax packages have offered accelerated first-year depreciation allowing businesses to more quickly deduct costs of qualified property, as well as partial expensing for qualified disaster cleanup and environmental remediation costs. Other tax incentives available for individuals in disaster areas included increased tax credits for higher education expenses and relief from the additional 10 percent tax on early withdrawals of retirement funds. An eligible disaster area may encompass communities that were economically distressed before the disaster as well as other communities, and taxpayers in the qualified area may be eligible for some tax incentives even if they did not necessarily sustain losses in the disaster. For those disaster tax incentives available to individuals and businesses as long as they meet specified federal requirements, the full cost to the federal government depends on how many taxpayers claim the provisions on their tax returns.

Community Development Tax Expenditures Overlap in Design with Some Limits on Combining Multiple Tax and Spending Programs

For community development, tax expenditures are not necessarily an either/or alternative, and they may be combined to support certain community development activities. The design of each community development tax expenditure we reviewed appears to overlap with that of at least one other tax expenditure, as the following examples illustrate.

- Five tax expenditures targeted similar geography—economically distressed areas including tribal areas—although the specific areas served varied. Within the EZ- and RC-designated communities, a variety of tax incentives were available to help reduce unemployment and stimulate business activity.

[49] We did not sum disaster revenue loss estimates to avoid double-counting amounts already included in estimates for specific tax expenditures.

- Seven bond tax expenditures share a common goal to finance infrastructure development.[50] The various bond authorities are not necessarily duplicative in that they allow flexibility in tax-exempt bond financing for similar projects with different ownership characteristics. For example, water and sewer facilities can be financed through public-purpose governmental bonds if a governmental entity is the owner and operator or through private activity bonds if the owner and operator is a private business.

- Multiple tax expenditures—including the NMTC, several EZ/RC incentives, as well as the rehabilitation and brownfields tax expenditures—can be used to fund commercial buildings.[51] Within this broad area of overlap, the tax expenditures are not necessarily duplicative in that some target certain types of buildings. The various tax expenditures that can be used to fund commercial buildings have geographic or other targets that sometimes coincide and sometimes do not. Therefore, for example, the 20 percent rehabilitation tax credit targets certified historic structures and the 10 percent rehabilitation credit is available for other older structures, but these eligible structures may or may not fall within the low-income communities eligible for NMTC assistance.

- Various tax benefits made available for certain disaster areas were largely modifications of existing tax expenditures.

The community development tax expenditures we reviewed also may potentially overlap with federal spending programs. As discussed above, our May 2011 report identified overlap among 80 economic development spending programs administered by four agencies—Commerce, HUD, SBA, and USDA.[52] Appendix VII discusses areas of overlap among the economic development spending programs that are similar to the areas of community development tax expenditure overlap discussed above.

[50] Recovery Zone bonds and Tribal Economic Development Bonds target economically distressed areas.

[51] EZ/RC provisions intended to finance costs for commercial buildings include the RC Commercial Revitalization Deduction and EZ Facility Bonds.

[52] See GAO-11-477R. For our findings to date on overlap and fragmentation among the 53 economic development programs that support entrepreneurial efforts, see GAO, *2012 Annual Report: Opportunities to Reduce Duplication, Overlap, and Fragmentation; Achieve Savings; and Enhance Revenue*, GAO-12-342SP (Washington, D.C.: Feb. 28, 2012).

Disaster tax aid may also potentially overlap with federal financial assistance offered through disaster assistance grants and loans.

Areas of overlap with multiple tax expenditures funding the same community development project may not represent unnecessary duplication, in part, because some tax expenditures are designed to be used in combination. As an example, the 4 percent LIHTC is designed to be used in combination with rental housing bonds. In another example, the 20 percent historic preservation tax credit may be used in combination with other community development tax expenditures, including the NMTC and LIHTC. Under the Housing and Economic Recovery Act of 2008, state HFAs are allowed to consider historic preservation as a selection factor in their qualified allocation plans to promote redeveloping historic structures as affordable housing.

As shown in table 3, federal tax laws and regulations impose limits on how community development tax expenditures can be combined with each other and spending programs to fund the same individual or project. For example, employers cannot double dip by claiming two employment tax credits for the same wages paid to an individual. Whereas business investors may claim accelerated depreciation for LIHTC and NMTC projects, businesses generally may not claim accelerated depreciation for private facilities financed with tax-preferred bonds.[53] For the rehabilitation tax credits and brownfield tax incentives, taxpayers may not claim costs funded by federal or state grants. Also, rehabilitation costs claimed for the 20 percent credit cannot be counted towards the adjusted basis of a property for the purposes of calculating the amount of other federal tax credits claimed for the same project; as a result, the effective tax savings on using the 20 percent credit with other federal tax credits are less than the sum of tax savings provided by each of the credits and deductions if they could be used together without this restriction. The information on tax law and regulatory limits listed in table 3 is not exhaustive; additional limits may apply in other federal laws and regulations.

[53] The Internal Revenue Code requires taxpayers to use the Alternative Depreciation System, which is straight-line depreciation with a longer recovery period, for property financed by tax-exempt bonds as defined under 103(a). Qualified residential rental projects which contain a certain proportion of lower-income tenants (under 142(a)(7)) are excluded from the definition of tax-exempt bond-financed property.

Table 3: Tax Law and Regulatory Limits on Combining Community Development Tax Expenditures and Federal Spending Programs

Tax expenditure	Limits on combining with other community development federal tax provisions	Limits on combining with federal spending programs
Tax Expenditures primarily promoting community development		
Empowerment Zones and Renewal Communities (EZ/RC)	Employers may not claim the same wages for both the EZ/RC employment credit and the EZ/RC Work Opportunity Tax Credit for an individual employee.[a]	The EZ provisions, under the Internal Revenue Code, allow IRS to issue regulations to limit EZ tax incentives in circumstances in which such incentives, in combination with benefits provided under other federal programs, would result in an activity being 100 percent or more subsidized by the federal government.[b]
New Markets Tax Credit (NMTC)	NMTCs cannot be used with LIHTCs for the same project.	None identified in federal tax laws and regulations.
Recovery Zone bonds	Facilities financed with the bonds are not eligible for accelerated depreciation.	None identified in federal tax laws and regulations.
Tribal Economic Development Bonds	Facilities financed with the bonds are not eligible for accelerated depreciation.	None identified in federal tax laws and regulations.
Indian employment credit	Employers of qualified American Indians cannot count any wages paid during the 1-year period beginning with the day an individual begins work with the employer if any portion of those wages were taken into account for the Work Opportunity Tax Credit.	None identified in federal tax laws and regulations.

Tax expenditure	Limits on combining with other community development federal tax provisions	Limits on combining with federal spending programs
Tax expenditures supporting community development and other federal mission areas		
Low-Income Housing Tax Credit (LIHTC)	The 9 percent credit not available for a low-income housing project receiving other federal housing subsidies. The 4 percent credit is available for projects financed with rental housing bonds. LIHTCs may not be claimed with NMTCs for the same project.	A low-income housing project's eligible basis does not include any costs financed with federally-funded grants. In turn, this reduces the amount of LIHTCs to which an owner would otherwise be entitled to claim. Project funding with Community Development Block Grant (CDBG) loans may still be eligible for 9 percent LIHTCs, without a reduction in basis. Additionally, projects receiving HUD HOME loans with below-market interest rates may claim the 9 percent LIHTC. The Recovery Act established two temporary funding programs that provided capital investments to LIHTC projects. The Tax Credit Assistance Program (TCAP), administered by HUD, provided gap financing to be used by HFAs in the form of grants or loans for capital investment in LIHTC projects that were awarded tax credits in fiscal year 2007, 2008, or 2009. The Grants to States for Low-Income Housing Projects in Lieu of Low-Income Housing Credits Program under Section 1602 of the Recovery Act (Section 1602 Program), administered by Treasury, allowed state HFAs to exchange a portion of their 2009 ceiling (up to 100 percent of unused 2008 LIHTCs and 40 percent of their 2009 allocation) for grant funds from Treasury at the rate of 85 cents for every tax credit dollar, and then award proceeds to finance the construction or acquisition and rehabilitation of qualified low-income buildings. HFAs are responsible for returning funds to HUD or Treasury if a project is not placed in service or fails to comply with LIHTC requirements.
20 percent credit for preservation of historic structures	Costs claimed using the tax credit reduce the adjusted basis of projects used for calculating other federal tax benefits, such as the LIHTC.	Taxpayers may only claim the tax credit based on costs incurred by the taxpayer and not from funding provided from other sources, including federal or state grant programs such as federal CDBG grants or state preservation grants.
10 percent credit for rehabilitation of structures (other than historic)	Costs claimed using the tax credit reduce the adjusted basis of projects used for calculating other federal tax benefits, such as the LIHTC.	Taxpayers may only claim the tax credit based on costs incurred by the taxpayer and not from funding provided from other sources, including federal or state grant programs such as CDBG grants or state preservation grants.

Tax expenditure	Limits on combining with other community development federal tax provisions	Limits on combining with federal spending programs
Exclusion of gain or loss on sale or exchange of certain brownfield sites	Not applicable.	501(c) organizations may not count funding from federal, state, or local governments toward the minimum qualified expenditures needed to qualify for the tax exclusion.
Expensing of environmental remediation costs	Not applicable.	Taxpayers may only claim the tax credit based on costs incurred by the taxpayer and not from funding provided from other sources, such as state forgivable loan and brownfield remediation grant programs.
Exclusion of interest on rental housing bonds	Rental housing bonds may not be combined with the 9 percent LIHTC for a low-income housing project.	None identified in federal tax laws and regulations.
Exclusion of interest for airport, dock, and similar bonds	Facilities financed with the bonds are not eligible for accelerated depreciation.	None identified in federal tax laws and regulations.
Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	Facilities financed with the bonds are not eligible for accelerated depreciation.	None identified in federal tax laws and regulations.
Credit for holders of qualified zone academy bonds (QZAB)	Facilities financed with the bonds are not eligible for accelerated depreciation.	None identified in federal tax laws and regulations.
Exclusion of interest on public purpose state and local bonds	Facilities financed with the bonds are not eligible for accelerated depreciation.	None identified in federal tax laws and regulations.
Build America Bonds (BAB)	Facilities financed with the bonds are not eligible for accelerated depreciation.	None identified in federal tax laws and regulations.

Source: GAO analysis of Internal Revenue Code, IRS regulation, and documentation from HUD, IRS and NPS.

Notes: We identified limitations in combining tax expenditures with related federal tax provisions or spending programs based on information located in the Internal Revenue Code and IRS regulations, and documentation on specific tax provisions and spending programs from federal agencies, including HUD, IRS, and NPS. Additional limitations may apply in other federal laws and regulations. There may also be limits on combining community development tax expenditures with state tax incentives or spending programs.

[a]For example, an employer may hire an employee who qualifies for both the Work Opportunity Tax Credit and EZ employment credit and pay that employee $20,000 of wages during the year. The employer could apply the Work Opportunity Tax Credit to the first $6,000 of qualifying wages at a 40 percent rate and then the EZ employment credit for the remaining $14,000 of qualifying wages at a 20 percent rate.

[b]Internal Revenue Code 1397F applies to tax-exempt bonds, EZs, and enterprise communities, and additional incentives for EZs. The regulations governing EZs implement these limitations. 26 CFR 1.1394-1, 26 CFR 1.1396-1.

An area of potential overlap also exists among the tax expenditures subsidizing community development activities and CRA regulatory requirements for depository institutions in helping to meet the credit needs of the communities in which they operate.[54] Banks earn positive consideration toward their CRA regulatory ratings by investing in projects also receiving certain tax benefits.[55] In 2007, we reported that investors used NMTC and LIHTC to meet their CRA requirements.[56] At that time, over 40 percent of NMTC investors reported that they used the tax credit to remain compliant with CRA. NMTC investors using the tax credit to meet CRA requirements also viewed it as very or somewhat important in their decision to make the investment. Nearly half of NMTC investors we surveyed in 2007 reported that they made other investments eligible for LIHTC, and nearly three-quarters of those investors using both tax credits were also required to comply with the CRA.[57]

Federal community development financing is fragmented with multiple federal agencies administering related spending programs as well as with multiple federal, state, and local agencies helping administer certain tax expenditures.[58] As we have previously reported, mission fragmentation and program overlap may sometimes be necessary when the resources and expertise of more than one agency are required to address a complex public need.[59] For example, IRS, NPS, and state historic preservation offices are involved in administering the 20 percent historic preservation tax credit for rehabilitating historic structures. NPS oversees compliance with technical standards for historic preservation, and IRS oversees financial aspects of the tax credit. NPS and IRS have partnered

[54] We have other work ongoing to examine fragmentation and potential overlap among federal tax, spending, and regulatory programs supporting affordable housing and homeownership.

[55] CRA requires regulators to periodically evaluate each insured depository institution's record in helping meet the credit needs of its entire community. That record is taken into account in considering an institution's application for deposit facilities, including mergers and acquisitions.

[56] GAO, *Tax Policy: New Markets Tax Credit Appears to Increase Investment by Investors in Low-Income Communities, but Opportunities Exist to Better Monitor Compliance*, GAO-07-296 (Washington, D.C.: Jan. 31, 2007).

[57] Investors may claim both tax credits, but the NMTC and LIHTC may not be used for the same project.

[58] As discussed above, fragmentation refers to circumstances where multiple agencies or offices are involved in serving the same broad area of national need.

[59] GAO, *Economic Development: Multiple Federal Programs Fund Similar Economic Development Activities*, GAO/RCED/GGD-00-220 (Washington, D.C.: Sept. 29, 2000).

with IRS providing guidance including frequently asked questions about the tax credit on the NPS website. At the same time, fragmentation can sometimes result in administrative burdens, duplication of efforts, and inefficient use of resources. Applicants may need to apply for tax expenditures and spending programs at multiple agencies to address the needs of a distressed area or finance a specific project. For example, owners and developers seeking to restore an historic structure for use as affordable rental housing would need to apply separately to NPS for the 20 percent historic rehabilitation credit as well as to the state HFA for a LIHTC allocation.

Limited Information and Measures Are Available to Assess the Performance of Community Development Tax Expenditures

Achieving results for the nation increasingly requires that federal agencies work together to identify ways to deliver results more efficiently and in a way that is consistent with limited budgetary resources. Agencies and programs working collaboratively can often achieve more public value than when they work in isolation. To address the potential for overlap and fragmentation among federal programs, we have previously identified collaborative practices agencies should consider implementing in order to maximize the performance and results of federal programs that share common outcomes.[60] These practices include defining common outcomes; agreeing on roles and responsibilities for collaborative efforts; establishing compatible policies and procedures; and developing mechanisms to monitor, assess, and report on performance results.

We have previously reported that data availability has been a challenge in assessing tax expenditure performance.[61] For community development tax expenditures where administration is fragmented across multiple agencies, coordination is essential to identify the data needed to measure and assess use of the tax benefits and associated outcomes as well as cost-effective means of collecting, analyzing, and reporting such data. To

[60] GAO, *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration among Federal Agencies*, GAO-06-15 (Washington, D.C.: Oct. 21, 2005).

[61] GAO-11-318SP.

the extent possible, data sharing is a way to reduce collection costs and paperwork burdens imposed on the public.[62]

IRS Does Not Collect Basic Information for Some Community Development Tax Expenditures and Has Some Information for Tax Credits and Bonds

In general, IRS only collects information necessary for tax administration or for other purposes required by law. As a result, IRS does not collect basic information about the numbers of taxpayers using some community development tax expenditures.[63] We have consistently reported that IRS does not have data on the use of various expensing and special depreciation incentives available to encourage investment in EZ/RC communities, tribal reservations, and disaster areas. For tax credits, IRS has data on the numbers of taxpayers and aggregate amounts claimed, but data often do not tie use of the tax credits to specific communities. Location information is critical to identifying the community where an incentive is used and determining the effect of the tax benefit on local economic development. For bonds, IRS collects data on the amount of bonds issued and broad purpose categories for governmental bonds and allowable uses for qualified private activity bonds. As we reported in 2008, while the information collected is useful for presenting summary information, it provides only a broad picture of the facilities and activities for which the bonds are used.[64] Though the information collected may be sufficient for IRS to administer the tax code, it provides little information for use in measuring performance. As a result, information often has not been available to help Congress determine the effectiveness of some tax expenditures or even identify the numbers of taxpayers using some provisions. Table 4 summarizes the types of information, including limitations and potential gaps, IRS collects for different types of community development tax expenditures.

[62] Federal tax information—tax returns and return information—are kept confidential under Section 6103 of the Internal Revenue Code except as specifically authorized by Congress. Section 6103 specifies what federal tax information can be disclosed, to whom, and for what purposes.

[63] In part because of the Paperwork Reduction Act, IRS generally avoids collecting information not directly needed for tax administration because both taxpayers and IRS incur costs and other burdens associated with any information-reporting requirements.

[64] GAO-08-364.

Table 4: Examples of IRS Data Collection and Potential Gaps and Limitations in Information for Specific Community Development Tax Expenditures

Tax expenditure	Types of information IRS collects and examples of data limitations
NMTC LIHTC EZ/RC employment tax credits	IRS generally collects information on the number of claimants and total amounts claimed for tax credits. Additional information about specific locations and projects vary, however. • For the NMTC, IRS collects information from taxpayers claiming the credit about the name and address of the CDE allocated the credit authority and date each investment was made for use in tracking the 7-year tax credit claim period. This information does not identify the locations and types of projects in which the CDE invests. • For the LIHTC, IRS Form 8609 Part I is used by state housing finance agencies to notify IRS of a tax credit award. The form identifies the project street address, whether the project is new construction or an existing building, whether the project has tax-exempt bond financing, as well as whether the building is in a difficult to develop area.[a] Form 8609 Part II is used by the owner to identify when the 10-year credit period begins and the taxpayer's elected minimum set-aside for low-income housing units in the project. The filing is a one-time submission separate from the owner's tax return. IRS does not collect information on unit size and numbers of bedrooms that is not necessary for tax enforcement purposes. • For EZ employment tax credits, IRS collects some information on EZ businesses' use of tax credits for employing EZ residents. However, the data cannot be separated to show how much was claimed for specific EZ communities. In 2010, IRS noted that a change to IRS Form 8844 would require legislative direction or a formal request from an agency to obtain certain information from the form.
Deductions for depreciation and brownfields	IRS uses Form 4562 to collect information about depreciation, and taxpayers can combine multiple depreciation schedules and group properties in reporting their total depreciation deduction. As a result, data are not sufficient to identify which taxpayers are using a specific depreciation incentive, the amount invested, or location of the investment. • Available data are insufficient to identify users of special depreciation rules targeted for Indian reservations. In 2008, we suggested that Congress consider enacting additional requirements for taxpayers to report whether they are claiming the special tribal depreciation and the reservation where the property is placed in service; no action had been taken as of December 2011.[b] • As we reported previously, IRS does not have data on use of the EZ/RC increased Section 179 deduction or the RC Commercial Revitalization Deduction, because taxpayers do not report these benefits separately from non EZ/RC depreciation items on their returns.[c] The Brownfields Tax Incentive allows a taxpayer to fully deduct the costs of eligible environmental cleanup costs at qualified properties in the year incurred, rather than capitalizing as longer-term assets. Large and midsize corporations and partnerships separately report this deduction on Schedule M-3.[d] However, smaller businesses claim this deduction as "other expenses" or "other deductions" on tax returns. IRS does not collect data to identify the numbers or location of cleanup sites.

Tax expenditure	Types of information IRS collects and examples of data limitations
Liberty Zone and Gulf Opportunity Zone disaster tax aid	IRS collects limited information on the use of temporary disaster relief tax expenditures. IRS typically uses existing forms to administer disaster relief modifications and expansions to existing tax expenditures and taxpayers do not report disaster-related benefits as separate items on their returns. • We previously reported that for the Liberty Zone tax benefits for response and recovery to New York after the September 11, 2001, terrorist attacks, IRS did not collect or report information about the use of six of the seven tax benefits or the revenue loss associated with those benefits.[e] For example, taxpayers added the amount of depreciation they were allowed under the Liberty Zone disaster allowance benefit to other depreciation expenses and reported their total depreciation expenses on their returns. Special depreciation and expensing provisions were also offered in five other disaster tax packages. • For the rehabilitation tax credits, IRS collects information necessary for administering higher tax credit rates available in specific disaster areas. In lieu of the standard 20 percent credit rate, taxpayers may claim a 26 percent credit for rehabilitating certified historic structures located in the Gulf Opportunity and Midwest disaster zones. IRS Form 3468 has separate lines for the standard credit as well as the two zone credits.
Tax-exempt bond provisions	Bond issuers file IRS Form 8038-G for governmental bonds and Form 8038 for tax-exempt private activity bonds. These information returns provide limited information on the specific uses of funded projects. • Form 8038-G has eight broad categories, including education, health and hospital, transportation, public safety, environment, housing, utilities, and other. Governmental bonds and private activity bonds are often used to fund a wide range of projects, and IRS data do not identify specific bond-financed projects. For example, IRS publishes statistical information about the amount of governmental bonds funding transportation, but IRS does not have information on specific improvements and communities affected. • Form 8038 captures the numbers and amount of bonds issued by state and local governments for specific tax-exempt private activity bond provisions. However, it can be difficult to tie the bond use to specific communities. For EZ facilities bonds, if a city or state government entity with more than one EZ/EC located in its jurisdiction issues these bonds, IRS data cannot identify which EZ or EC benefited from the bond issue.

Source: GAO analysis.

[a] Difficult to develop areas, where construction, land, and utility costs are high relative to the area's median income, are eligible for an additional credit amount.

[b] GAO-08-731.

[c] GAO-10-464R and GAO, *Empowerment Zone and Enterprise Community Program: Improvements Occurred in Communities, but the Effect of the Program is Unclear*, GAO-06-727 (Washington, D.C.: Sept. 22, 2006).

[d] Corporations and partnerships with consolidated assets of $10 million or more that are required to file IRS Form 1120 corporate income tax return or IRS Form 1065 partnership income tax return, must also file Schedule M-3. Schedule M-3 requires companies to reconcile financial accounting net income (or loss) with taxable net income and expense and deduction items.

[e] GAO, *Tax Administration: Information is Not Available to Determine Whether $5 Billion in Liberty Zone Tax Benefits Will be Realized*, GAO-03-1102 (Washington, D.C.: Sept. 30, 2003).

IRS generally does not collect information on the frequency of use or types of businesses claiming tax benefits unless legislatively mandated to do so. Collecting additional data to identify users and specific properties would require changes in IRS forms and information processing procedures. To some extent, the increasing number of taxpayers filing electronically could make it easier for IRS to collect additional data without expensive transcription costs. As we previously reported, in considering additional data requirements, Congress would need to weigh the need for more information with IRS's other priorities because such requirements likely would increase, to some degree, the administrative costs for IRS and the compliance burden on taxpayers.[65] If policymakers conclude that additional data would facilitate examining a particular tax expenditure, decisions would be required on what data are needed, who should provide the data, who should collect the data, how to collect the data, what it would cost to collect the data, and whether the benefits of collecting additional data warrant the cost of doing so.

Other Federal Agencies Collect Some Project Data for Certain Community Development Tax Expenditures, but Fragmented Administration of Overlapping Tax Expenditures Complicates Efforts to Measure Performance

Federal agencies helping administer specific community development tax expenditures also collect some information on the uses and outcomes of the projects, although data limitations hamper efforts to measure performance. As we have previously reported, HUD was unable to validate performance information on the use of some EZ/RC incentives, and HUD tracks only a portion of the EZ employment credits. The CDFI Fund is taking steps to collect additional information on individual NMTC projects. For the 20 percent historic preservation tax credit, NPS surveys property owners but does not verify the reliability of the data received for performance measurement purposes. Table 5 provides an overview of the types of information that HUD, CDFI Fund, and NPS collect for the tax expenditures they help administer.

65 GAO-08-731.

Table 5: Community Development Tax Expenditure Federal Information Collection

Agency/tax program	Data collected/performance measures
HUD EZ/RC	HUD uses its Performance Measurement System (PERMS) to evaluate progress and determine continued eligibility for each designee. Annual performance reports provide both narrative and quantitative data on activities underway in EZ communities. As we previously reported, HUD collected data on the use of EZ Facilities Bonds and the RC Community Revitalization Deduction from local administrators allocating those tax benefits to specific projects and businesses. HUD was unable to systematically validate the PERMS data they received from users of the spending and tax benefits. HUD reports that the one programwide performance measure is the annual dollar amount of EZ and RC employment credits claimed by sole proprietors. This measure does not capture other business organizational forms, such as partnerships and corporations. Corporate tax filer data are difficult to connect to specific EZs or RCs because corporations may hire EZ/RC employees in locations other than their corporate tax filing address. Thus, HUD is tracking only a portion of credits used, and it is not an outcome oriented performance measure that attempts to measure any benefits resulting from use of the credit in a given area.
CDFI Fund NMTC	CDFI Fund uses its Community Investment Impact System (CIIS) to collect outcome data from CDEs on NMTC projects, including the number of jobs by type, projected real estate square footage, numbers of rental and for sale housing units, and the capacity of educational, childcare, and healthcare facilities developed using NMTC financing. CDEs used different methodologies to estimate the number of jobs, and these techniques vary in their reliability. Although self-reported jobs data to the CDFI Fund represents a solid step in tracking the use and accountability of federal resources, the CDE data may not reliably identify the number of jobs associated with NMTC financing. As we previously reported, self-reported performance information that is not reported accurately could provide data that are less reliable for decision making. Although the CDFI Fund collects project-level data on the self-reported estimates of outcomes, the data collection method they used did not always allow them to clearly identify the estimated outcomes for each individual project. According to the CDFI Fund, this problem occurred due to software problems with CIIS and the agency worked with a contractor to fix these problems. In cases where multiple CDEs contribute NMTC funds to the same project, the CDEs often all report outcome data on the project in CIIS. Our 2010 analysis indicated that this occurred for about 18 percent of the projects in the CIIS database. In such cases, CDEs could report duplicate and inconsistent data for a single project which can result in the overcounting or undercounting of estimated project outcomes. According to CDFI Fund officials, the current iteration of CIIS allows CDEs to report multiple investments, and work is under way to eliminate the ability of private vendors to change project numbers and to enforce reporting options for multiple CDEs contributing NMTC funds to the same project. In addition, CDFI Fund officials said that they held a series of focus groups with NMTC CDEs to identify how to ensure coordination and consistency among CDEs in their reporting. As we recommended in 2010, CDFI Fund is collecting additional information on the amount of residual value to be left in qualified active low-income community businesses at the end of the 7-year credit period. Collecting this information may make it more feasible to identify with better precision the net benefits flowing to such businesses in relation to the cost of the program to the government program in forgone tax revenue.

Agency/tax program	Data collected/performance measures
NPS 20 percent historic preservation tax credit[a]	NPS collects information on the amount of private investment leveraged, the number of low and moderate income housing units created, and the number of jobs created per project. NPS also collects some information on the use of additional incentives and funding assistance that rehabilitation tax credit projects receive. NPS administers a mail survey to property owners certified to receive the 20 percent credit to collect the information. NPS does not verify the data and noted a response rate of 16-19 percent for its recent mail surveys. NPS also collects information on the projects through the application and certification process. Before obtaining approval of proposed rehabilitation projects, applicants estimate the level of private-sector investment for the project. Upon NPS certifying the completion of rehabilitation projects, project users report the amount actually claimed as qualifying costs associated with the rehabilitation.

Source: GAO analysis.

[a]NPS does not collect data for the 10 percent rehabilitation tax credit for nonhistoric structures, and its role is limited to decertifying that 10 percent rehabilitation credit projects are not historically significant.

IRS and federal agencies helping administer tax expenditures have some efforts underway to coordinate and share data. For example, CDFI Fund shares data with IRS for tax compliance purposes. IRS selected a sample of NMTC investors using CDFI Fund data to assess whether investors were claiming the proper amount of tax credits on their returns. NPS forwards approvals of completed certified rehabilitation projects to IRS for tax enforcement. HUD has collaborated with IRS to attempt to measure the use of the EZ/RC employment credits within ZIP codes around EZ/RC areas, but data reliability questions prevented its use for performance measurement. In response to our 2004 recommendation, IRS and HUD's Office of Community Renewal established a partnership for IRS to share aggregate information on the use of the EZ/RC employment tax credits.[66] HUD used IRS data to estimate the number of jobs generated or supported by EZ/RC employment credits, but the aggregate data could not be tied to specific areas. IRS also expressed concerns about the assumptions used in the job estimation exercise as well as the underlying assumed cause-and-effect relationship between the credits and jobs. Although progress in identifying data on the use of EZ/RC tax benefits has been limited, the HUD and IRS efforts represent a step in the right direction for agency collaboration in measuring performance of a community development tax expenditure.

[66] In 2004, we recommended that HUD, USDA, and IRS collaborate to (1) identify the data needed to assess the use of the EZ/RC tax benefits and the various means of collecting such data; (2) determine the cost-effectiveness of collecting these data; (3) document the findings of their analysis; and, if necessary, (4) seek the authority to collect the data, if a cost-effective means was available. See GAO-04-306.

While this report focuses on federal agencies helping administer community development tax expenditures, state and local entities may also retain information that could be useful for measuring uses of certain tax expenditures. For example, state HFAs collect data on LIHTC projects, such as the numbers of units placed in service and other sources of funding obtained by the projects.[67] In addition to filing information returns reporting bond issuance amounts and general uses as required by law, state and local governments issuing bonds have information about the projects and activities financed with tax-exempt and tax credit bonds. For our prior work on the GO Zone, we obtained information from state and local officials to determine how much of the tax incentives were used and for what purpose.[68]

Limitations in federal agency efforts to collect reliable data for measuring performance for community development programs are not unique to tax expenditures. For the EZ program, we previously reported that HUD and other agencies had not collected data on the amount of program grant funds spent to implement specific activities.[69] In our work to date on the potential for duplication among 80 economic development spending programs, we found that the agencies appeared to collect only limited information on program outcomes.[70] This information is needed to determine whether the potential for overlap and fragmentation is resulting in ineffective or inefficient programs.

The overlapping nature of community development tax expenditures with administration fragmented across multiple agencies complicates collecting data and measuring performance. A single community development project can use multiple tax expenditures—within limits

[67] HUD also maintains a LIHTC database with information on the number of units and low-income units, number of bedrooms, year the credit was allocated, year the project was placed in service, whether the project was new construction or rehab, type of credit provided, and other sources of project financing.

[68] GAO, *Gulf Opportunity Zone: States Are Allocating Federal Tax Incentives to Finance Low-Income Housing and a Wide Range of Private Facilities*, GAO-08-913 (Washington, D.C.: July 16, 2008).

[69] GAO, *Empowerment Zone and Enterprise Community Program: Improvements Occurred in Communities, but the Effect of the Program is Unclear*, GAO-06-727 (Washington, D.C.: Sept. 22, 2006).

[70] GAO, *Economic Development: Efficiency and Effectiveness of Fragmented Programs Are Unclear*, GAO-11-872T (Washington, D.C.: July 27, 2011).

specified in tax law and regulation—which in turn may be administered by different agencies, each collecting data for its own program. For example, a mixed-use commercial real estate project that rehabilitates an historic structure could be supported by the NMTC and the 20 percent rehabilitation tax credit. Both the CDFI Fund and NPS would collect jobs data on the project, but it is not clear that each agency would attempt to measure its unique contribution to the project's employment outcome. Although there are difficulties in accurately prorating the results of community development projects with multiple funding streams, CDFI Fund is taking steps to improve its collection of outcome information on a project level to provide an analytical basis to isolate NMTC contributions to project outcomes. CDFI Fund officials noted that further data collection on other project funding sources would add to the reporting burden and require OMB review under the Paperwork Reduction Act. NPS collects jobs data reported by projects receiving the 20 percent rehabilitation tax credit, but NPS does not attempt to isolate the extent to which the projects benefit from other federal programs. Duplicate or inconsistent data for a single project can result in the overcounting or undercounting of estimated project outcomes.

Given that community development tax expenditures are designed to be used in combination with one another and also may be used in combination with other federal spending programs as discussed above, basic financial information about the multiple federal sources and amounts—from both tax and spending programs—received by a community development project could be useful in identifying areas for agencies to coordinate in measuring performance for overlapping programs. As we reported in 2008, while HUD and Treasury reported leverage measures that described the ratio of all other funds (federal, state, local, and private funds) compared to a specific program's funds, alternative measures describing total federal investment provided considerably different results and could be of potential value to policymakers.[71] At the time, there was no agency-specific or governmentwide guidance on what agencies should disclose about the

[71] GAO, *HUD and Treasury Programs: More Information on Leverage Measures' Accuracy and Linkage to Program Goals is Needed in Assessing Performance*, GAO-08-136 (Washington, D.C.: Jan. 18, 2008). The report examined HUD's Community Development Block Grant (CDBG), HOME Investment Partnerships (HOME), and HOPE VI programs and Treasury's Community Development Financial Institutions (CDFI) Fund Financial Assistance, Low-Income Housing Tax Credit, and New Markets Tax Credit programs.

leverage measures they report or how they calculate them for specific programs.[72] To provide more accurate, relevant, and useful information to Congress and others, our 2008 report recommended that OMB provide guidance to help agencies determine how to calculate, describe, and use leverage measures in a manner consistent with their programs' design, and reevaluate the use of such measures and disclose their relevance to program goals and in future performance reviews of federal housing and community and economic development programs.[73] Although OMB has used leveraging as a program output measure in the past, as of February 2012, OMB has not taken action to issue guidance for agencies calculating leverage measures. Better measures of the total federal support and mix of federal funding would be helpful in better understanding how tax expenditures contribute to community development project outcomes and identifying areas of overlap for further coordination.

Past Collaborative Efforts to Assess Performance of Community Development Tax Expenditures Have Been Limited, but GPRAMA Calls for Crosscutting Reviews

Periodic reviews could help determine how well specific tax expenditures work to achieve their goals and how their benefits and costs compare to those of programs, including spending programs, with similar goals. Comparing related programs' performance could then help inform judgments about the most effective and economical means of achieving desired outcomes, which could include reducing redundancy in related tax and spending programs.

We recommended in 1994 and again in 2005 that OMB design and implement a structure for conducting reviews of tax expenditures' performance.[74] We also recommended in 2005 that OMB include tax expenditures in budget and performance review processes so that they are considered along with related outlay programs in determining the

[72] As we reported in 2007, leveraging can be defined in two ways: (1) using a relatively small amount of federal funds to attract private investment and (2) combining or layering program funds with other federal, state, local, and private sources of funds. See GAO, *Leveraging Federal Funds for Housing, Community, and Economic Development*, GAO-07-768R (Washington, D.C.: May 25, 2007).

[73] We also recommended that HUD and Treasury disclose information on the completeness and accuracy of the data and the methods used to calculate leverage measures, and if used as a performance indicator, the extent to which such measures link to program goals and core activities.

[74] GAO/GGD/AIMD-94-122 and GAO-05-690.

adequacy of federal efforts to achieve national objectives. Since their initial efforts in the 1997 GPRA report and 1999 budget to outline a framework for evaluating tax expenditures and preliminary performance measures, OMB and Treasury largely ceased to make progress and retreated from setting a schedule for evaluating tax expenditures. According to the President's Fiscal Year 2012 Budget, the Administration said that developing an evaluation framework was a significant challenge and that the current focus was on addressing challenges with data availability and analytical constraints so that the Administration can work towards crosscutting analyses examining the effectiveness of tax expenditures alongside related spending programs. The President's Fiscal Year 2013 Budget did not provide an update on these efforts.

While incorporating tax expenditures into crosscutting reviews presents significant analytical challenges, we previously reported that the challenges were not insurmountable.[75] Under the Bush Administration, for the fiscal year 2006 budget request, OMB used its Program Assessment Rating Tool (PART) initiative to review the NMTC program as part of a crosscutting assessment alongside 18 community and economic development spending programs.[76] While the current Administration is no longer using PART assessment tools, OMB officials agreed that the PART review of NMTC demonstrated the feasibility of applying a common framework for assessing a tax expenditure with a specific tax credit allocation awarded through a competitive application process similar to a grant program. To date, OMB has not made further progress in examining the performance of other community development tax expenditures. In its fiscal year 2012 budget guidance, OMB instructed agencies, where appropriate, to analyze how to better integrate tax and spending policies that have similar objectives and goals. Such analysis could be useful in identifying redundancies.

[75] GAO, *21st Century Challenges: How Performance Budgeting Can Help*, GAO-07-1194T (Washington, D.C.: Sept. 20, 2007).

[76] OMB described PART as a diagnostic tool meant to provide a consistent approach to assessing federal programs as part of the executive budget formulation process. It applied 25 questions to all "programs" under four broad topics: (1) program purpose and design, (2) strategic planning, (3) program management, and (4) program results (i.e., whether a program is meeting its long-term and annual goals) as well as additional questions that are specific to one of seven mechanisms or approaches used to deliver the program.

For federal community development programs, a crosscutting review would need to involve OMB and Treasury as well as the departments and agencies helping administer the tax expenditures as well as related spending programs. As of January 2012, Treasury's Office of Tax Analysis had no evaluations ongoing or planned for the community development tax expenditures we reviewed. In December 2011, Treasury issued a report with its recommendations to Congress for Indian tribal government tax-exempt bond financing.[77] As discussed above, HUD, NPS, and CDFI Fund have taken steps to collect performance information for specific community development tax expenditures. As of January 2012, HUD had no plans to assess EZ tax incentives which expired December 31, 2011. For the 20 percent rehabilitation tax credit, NPS funded development of a model to estimate economic impacts, such as job creation and shared statistical information with outside researchers.[78] As of January 2012, NPS had no plans for additional evaluations or research collaboration with other agencies. The CDFI Fund has contracted out for an independent evaluation of the NMTC (discussed further below) and sought funding to develop a community development impact measurement estimator. According to CDFI Fund, the proposed tool could help standardize data collection and performance reporting for community development investments. Given that some community development tax expenditures target overlapping geographic areas, such as the NMTC and EZ/RC, any comprehensive approach to reviewing the performance of programs in such communities would involve collaboration among multiple agencies.

[77] See U.S. Department of the Treasury, *Report and Recommendations to Congress reqarding Tribal Economic Development bond provision under Section 7871 of the Internal Revenue Code* (Washington, D.C.: Dec. 19, 2011). This study was mandated under Section 1402(b) of Title I of Division B of the Recovery Act. Treasury recommended repealing the essential governmental function standard for Indian tribal governmental tax-exempt bond financing and allowing Indian tribal governments to issue tax-exempt private activity bonds for the same types of projects and activities as are allowed for state and local governments subject to a national volume cap and certain other limitations. The President's Fiscal Year 2013 Budget included a proposal to implement the report recommendations.

[78] See David Listokin, et al., *Second Annual Report on the Economic Impact of the Federal Historic Tax Credit*, Rutgers University Edward J. Bloustein School of Planning and Public Policy (New Brunswick, N.J.: 2011).

Moving forward, GPRAMA—if effectively implemented—should result in crosscutting reviews of federal efforts to achieve intended outcomes, such as developing communities. The act requires OMB, in coordination with agencies, to select a limited number of long-term, outcome-oriented crosscutting priority goals for the federal government. On an annual basis, OMB is to identify the federal agencies, organizations, program activities, tax expenditures, regulations, policies, and other activities that contribute to each goal along with crosscutting performance measures and quarterly performance targets. Concurrent with the President's Fiscal Year 2013 Budget, the Administration announced 14 interim crosscutting federal priority goals in February 2012.[79] In addition to the five management function goals required under GPRAMA, nine interim goals address crosscutting policy areas, and some goals specifically identify tax expenditures as contributing programs. According to the Administration, the interim goals reflect areas where cross-agency collaboration and regular review are expected to yield progress.

One interim goal touches on an aspect of community development—the Entrepreneurship and Small Business goal is to increase federal services to entrepreneurs and small businesses with an emphasis on startups and growing firms as well as underserved markets. Strategies to accomplish this goal include improving alignment and communication between agency programs that assist small businesses and increasing access to financing programs for entrepreneurs and small businesses. The goal identifies the NMTC as a contributing program, and other programs with the potential to contribute may be identified over time.

On a quarterly basis beginning in June 2012, OMB is to assess whether the relevant federal agencies and program activities, including any related tax expenditures, are contributing to achieving each goal. The new crosscutting planning and reporting requirements could lead to the development of performance information in areas that are currently incomplete. On August 17, 2011, OMB issued guidance to agencies on implementing GPRAMA and updated Circular A-11 with information on how GPRAMA will affect performance planning and reporting. Although neither of these documents explicitly addresses tax expenditures, OMB plans to develop guidance on examining tax expenditures' contribution as

[79] The Administration called these Cross-Agency Priority (CAP) Goals. A complete list of the CAP goals is available on Performance.gov; see http://goals.performance.gov/goals_2013.

part of cross-agency and agency priority goal reporting that would be put in place in fall 2012.

GPRAMA significantly enhances requirements for agencies to consult with Congress in establishing and adjusting governmentwide and agency goals. As we recently reported, these consultations provide important opportunities for Congress to provide input on what results agencies should seek to achieve, how those results will be achieved, how to measure progress, and how to report on results.[80] For example, Congress has a continuing opportunity to provide input on its priorities for which areas should be selected as outcome-oriented crosscutting priority goals for the federal government. The federal priority goals are to be revised or updated at least every 4 years, starting with the fiscal year 2015 budget due in February 2014. Consultations also provide Congress an opportunity to better understand challenges confronting particular programs, such as any data limitations and methodological issues in measuring and assessing tax expenditure performance. Consultations are not necessarily one-time events, and Congress could reach out to agencies to provide input at any time.

Beyond providing input to the agencies and OMB during the consultations to shape their performance goals, Congress can foster results-oriented cultures in the federal government by using performance information in its decision making processes. For the community development tax expenditures, Congress can focus Executive Branch attention on addressing performance issues through myriad oversight activities, such as oversight agendas, hearings, letters to agencies, and formal and informal meetings with agency officials responsible for administering and evaluating these tax expenditures. Given the overlap and fragmentation across community development tax and spending programs, coordinated congressional efforts, such as joint hearings, may facilitate crosscutting reviews and ensure Executive Branch efforts are mutually reinforcing.

[80] GAO, *Managing for Results: Opportunities for Congress to Address Government Performance Issues*, GAO-12-215R (Washington, D.C.: Dec. 9, 2011).

Previous Studies Provide Limited Information on the Effectiveness of Select Tax Expenditures in Promoting Community Development

Scarcity of Literature for Select Tax Expenditures' Effectiveness

Our systematic review of literature for select community development tax expenditures generally found few studies that attempted to assess the effectiveness of programs in promoting certain measures of community development, such as reducing poverty or unemployment rates. We reviewed government studies and academic literature on the following community development tax expenditures: the NMTC, EZ tax program, disaster relief tax provisions, and the rehabilitation tax credits.[81] In reviewing this literature, we focused on studies that attempted to analyze the impact of the tax expenditures on community development through empirical methods. We also summarized our prior observations and recommendations on options to improve tax expenditure design and considerations in authorizing similar community development tax programs. For the NMTC, we did not identify any empirical studies issued since our last report in January 2010.[82] For the EZ program, we identified several studies published since our most recent report in March 2010[83] that attempted to measure the effect of the program on some measure of community development, as described below. We identified one study on

[81] See appendix I for our methodology in selecting these tax expenditures for the literature review. A bibliography of studies we reviewed is included at the end of this report.

[82] GAO-10-334; GAO-07-296; and GAO, *New Markets Tax Credit Program: Progress Made in Implementation, but Further Actions Needed to Monitor Compliance*, GAO-04-326 (Washington, D.C.: Jan. 30, 2004).

[83] GAO-10-464R; GAO-06-727; and GAO, *Community Development: Federal Revitalization Programs Are Being Implemented, but Data on the Use of Tax Benefits Are Limited*, GAO-04-306 (Washington, D.C.: Mar. 5, 2004).

the rehabilitation tax credits that attempted to measure one aspect of community development. We did not identify any empirical studies on disaster tax relief provisions. The scarcity of literature on some tax expenditures may be due to the fact that establishing that a community development tax expenditure or spending program has causal impact on economic growth in a specific community can be challenging. Table 6 below summarizes key methodological issues in attempting to measure effectiveness of the tax expenditures we selected.

Table 6: Limitations and Methodological Challenges in Evaluating Select Community Development Tax Expenditures

	Limitation or challenge in evaluation			
Tax expenditure	**Small relative to total economic activity in area**	**Limited data to establish causal link**	**Temporary incentive**	**Difficult to establish geographic comparison area**
NMTC	X	X	X	
EZ/RC	X	X	X	
Disaster relief	X	X	X	X
Historic rehabilitation tax credits	X	X		X

Source: GAO analysis.

Various Challenges Inhibit Evaluations of the New Markets Tax Credit

As we reported in 2010, making definitive assessments about the extent to which benefits flow to targeted communities as a direct result of NMTC investments presented challenges.[84] For example, the small size of the NMTC projects relative to the total economic activity within an area made it difficult to detect the separate effect of a particular project. Many of the eligible communities may already have significant business activities that could mask NMTC impacts. Limitations associated with available data also made it difficult to determine whether benefits generated in a low-income community outside the scope of a particular project are the direct result of the NMTC program. As discussed above, CDFI Fund is collecting additional data on the use of the NMTC that may provide further insights into its use and impact on communities. For example, CDFI Fund is now collecting data on the amount of equity that CDEs estimate will be left in the businesses at the end of the 7-year period in which tax credits

[84] GAO-10-334.

can be claimed. Collecting this information may provide CDFI Fund with additional information on the credit's cost-effectiveness.

Our 2007 NMTC report used statistical methods to attempt to measure the credit's effectiveness, but determined that further analysis is needed to determine whether the economic costs of shifting investment are justified.[85] Our analysis did find that the credit may be increasing investment in low-income communities, although this finding was not, in and of itself, sufficient to determine that the credit was effective. Increased investment in low-income communities can occur when NMTC investors increase their total funds available for investment or when they shift funds from other uses. A complete evaluation of the program's effectiveness would require determining the costs of the program, including any behavioral changes by taxpayers that may be introduced by shifted investment funds. Neither our statistical analysis nor the results of a survey we administered allowed us to determine definitively whether shifted investment funds came from higher-income communities or from other low-income community investments.

In our 2010 NMTC report, we offered two redesign options to potentially increase the credit's effectiveness in dispensing funds to low-income businesses—replacing the tax credit with a grant or making changes to the related entities test.[86] Converting the credit to a grant would likely increase the equity that could be placed in low-income businesses. In commenting on our 2010 report, CDFI Fund expressed concern that a grant may not channel a greater portion of the federal subsidy to intended recipients than the tax credit and that a grant program could have administrative costs or other effects that would reduces its desirability. Though the grant approach would involve considering a number of design issues, Congress has turned to grant programs in other cases where tax credits had formerly been used. For example, to fill funding gaps in LIHTC projects, Congress offered state HFAs the option to exchange LIHTCs for Recovery Act Section 1602 federal grants to subsidize low-income rental housing development. As we suggested in 2010, Congress should consider offering grants in lieu of credits if it chooses to extend the

[85] GAO-07-296.

[86] The related entities test requires that the CDE have no more than a 50 percent ownership stake in a qualified low-income community business.

program which expired at the end of 2011.[87] If it does so, Congress should require Treasury's CDFI Fund to gather data to assess whether and to what extent the grant program increases the amount of federal subsidy provided to low-income community businesses compared to the NMTC; how costs for administering the program incurred by the CDFI Fund; CDEs, and investors would change; and whether the grant program otherwise affects the success of efforts to assist low-income communities.

We did not identify any empirical studies on the effectiveness of the NMTC since our last report, but CDFI Fund has contracted with the Urban Institute for an evaluation of the NMTC that may lead to additional insights into the program's effectiveness. In 2010, the Urban Institute published a literature review to inform a forthcoming evaluation, including challenges inherent in evaluating economic and community development programs in general.[88] CDFI Fund reports that the Urban Institute is primarily relying on surveys to CDEs and businesses to conduct the evaluation. The Urban Institute conducted a preliminary briefing on the study's results with CDFI Fund in January 2012. After submitting a draft report to CDFI Fund, the Urban Institute will issue a final report in the spring 2012.

[87] The President's Fiscal Year 2012 Budget proposed extending the NMTC program to the end of 2012, with a maximum amount of $5 billion for qualified equity investments in 2012. The President's Fiscal Year 2013 Budget proposed extending the program through 2013 with $5 billion available for allocation in both 2012 and 2013.The 2012 and 2013 budgets also proposed modifying the NMTC to offset alternative minimum tax (AMT) liability. The Joint Committee on Taxation estimates that the 2012 proposal would cost $2.95 billion over 2011 through 2021, and the estimate for the 2013 proposal was not available as of February 28, 2012. In 2010, we reported that if such an AMT allowance increased the pool of investors and the price investors are willing to pay for the credit, it might have the beneficial effect of ensuring that a larger portion of the subsidy ended up in qualified active low-income community businesses. However, such an allowance would increase federal revenue losses to the extent that investors subject to the AMT who are not currently investing in NMTCs become NMTC investors and claim credits that would otherwise go unclaimed.

[88] Martin D. Abravanel, Nancy M. Pindus, Brett Theodus, *Evaluating Community and Economic Development Programs: A Literature Review to Inform Evaluation of the New Markets Tax Credit Program,* The Urban Institute, September 2010.

While Some Studies Have Found Improvements in EZ Communities, Establishing Clear Program Results Is Difficult

Our prior work has found improvements in certain measures of community development in EZ communities, but data and methodological challenges make it difficult to establish causal links. Our 2006 report found that Round 1 EZs that received a combination of grant and tax benefits did show improvements in poverty and unemployment, but we did not find a definitive connection between these changes and the EZ program.[89] Our 2010 report on the EZ/RC program reviewed seven academic studies of Round 1 projects and found that the evaluations used different methods and reported varying results with regard to poverty and unemployment.[90] For example, one study concluded that the program reduces poverty and unemployment, while another study found that the program did not improve those measures of community development. As with the NMTC, our prior EZ/RC work has demonstrated challenges in measuring the effects of the program.[91] For example, data limitations make it difficult to thoroughly evaluate the program's effectiveness in that use of the EZ/RC Employment Credit cannot be tied to specific communities. Demonstrating what would have happened in the absence of the credit is difficult. External factors, such as national and local economic trends, can make it difficult to isolate the effects of the EZ/RC tax incentives.

Since our 2010 EZ/RC report, we noted that more recent studies comparing employment, housing values, and poverty rates in EZ communities with similarly economically distressed areas have yielded mixed results. Two studies have found lower unemployment in the designated areas where the provisions have been used relative to similar non-EZ areas. Specifically, one study reviewed federal and state enterprise zones and found positive impacts on local labor markets in terms of the unemployment rate and poverty rate.[92] In addition, the researchers found positive, but statistically insignificant, spillover effects to neighboring Census tracts. The second study focused on Round 1 of the EZ program and found that the EZ designation substantially increased

[89] GAO-06-727.

[90] GAO-10-464R.

[91] GAO-06-727.

[92] John C. Ham, et al., "Government Programs Can Improve Local Labor Markets: Evidence from State Enterprise Zones, Federal Empowerment Zones and Federal Enterprise Community," *Journal of Public Economics*, vol. 95, no. 7-8 (2011): 779-797.

employment in zone neighborhoods, particularly for zone residents.[93] Importantly, the researchers examined Round 1 of the program that relied on a mix of tax benefits and grant funding. In addition, another study found that EZ program results seem to vary among different types of businesses within the designated zones.[94] For example, researchers found that EZ tax incentives increase the share of retail and service sector establishments but decreases the share of transportation, finance, and real estate industries. They noted that the effectiveness of the EZ wage credit may be affected by the types of industries that are located in the designated area. However, while these studies have found that certain economic outcomes are associated with an area being eligible for EZ incentives, due to data limitations the studies cannot estimate the extent to which these outcomes vary with the amount of incentives actually used in an area.

Both JCT and the Congressional Research Service (CRS) conducted literature reviews and reported modest effects and methodological limitations in making any definite assessments on the effectiveness of EZs.[95] JCT reported that studies generally found modest effects overall with relatively high costs. In addition, it is difficult to determine whether the spending or tax incentives were responsible for any increases in economic activity. CRS's review of academic literature found modest, if any, effects of the program and called into the question their cost-effectiveness. According to CRS, one persistent issue in evaluating the potential impact of EZs is the inherent difficulty of identifying the effect of the programs apart from overall economic conditions.

[93] Matias Busso, Jesse Gregory, and Patrick M. Kline, "Assessing the Incidence and Efficiency of a Prominent Place Based Policy," National Bureau of Economic Research Working Paper No. 16096 (2010).

[94] Andrew Hanson and Shawn Rohlin, "The Effect of Location-Based Tax Incentives on Establishment Location and Employment across Industry Sectors," *Public Finance Review* vol. 39, no. 2 (2011): 195-225.

[95] Joint Committee on Taxation, *Incentives for Distressed Communities: Empowerment Zones and Renewal Communities*, JCX-38-09 (Oct. 5, 2009): 22-23; and Congressional Research Service, *Empowerment Zones, Enterprise Communities, and Renewal Communities: Comparative Overview and Analysis* (Feb. 14, 2011): 18.

With the expiration of the RCs at the end of 2009 and EZs at the end of 2011, we have made observations in prior work that Congress can consider if these or similar programs are authorized in the future.[96] Without adequate data on the use of program grant funds or tax benefits, neither the responsible federal agencies nor we could determine whether the EZ/EC funds had been spent effectively or that the tax benefits had in fact been used as intended. If Congress authorizes similar programs that rely heavily on tax benefits in the future, it would be prudent for federal agencies responsible for administering the programs to collect information necessary for determining whether the tax benefits are effective in achieving program goals.[97] In 2010, the U.S. Census Bureau began releasing more frequent poverty and employment updates at the Census tract level than it has traditionally provided. This information could be a useful tool in determining the effects of such programs on poverty and employment in designated Census tracts.

Limited Data Collection and Methodological Challenges in Establishing Comparison Areas May Inhibit Evaluations of Effectiveness on Disaster Provisions

Though we identified literature that discussed use of disaster tax provisions and their design, none of the articles attempted to measure empirically the impact the incentives had on promoting community development. A potential challenge in designing tax relief for disaster areas is that those communities within the zones most affected by the disaster may be slower to respond to the incentives than other areas within the zone. Our prior work on the GO Zone reported that bonds were awarded on a first-come, first-served basis that led to awarding bond allocation to projects in less damaged areas in the zone because businesses in these areas were ready to apply for and issue bonds before businesses in more damaged areas could make use of the incentive.[98]

[96] The President's Fiscal Year 2012 and 2013 Budgets proposed designating 20 new Growth Zones (14 urban areas and 6 rural areas). The Joint Committee on Taxation estimates that the 2012 proposal (effective for 2012 through the end of 2016) would cost $2.4 billion from 2011 through 2021, and the estimate for the 2013 proposal (effective for 2014 through the end of 2018) was not available as of February 28, 2012. The Secretary of Commerce would select the zones in consultation with HUD and USDA through a competitive application process. The proposed growth zones would offer two tax incentives—an employment credit and accelerated depreciation. The Secretary of the Treasury would be given authority to collect data from taxpayers on the use of such tax incentives by zone.

[97] GAO-06-727.

[98] GAO-08-913.

Thus, assessing the impact of disaster relief on an entire zone may not reflect how the provisions affected specific areas within the zone. Another key challenge in evaluating disaster relief tax expenditures is the difficulty in establishing a comparison area where a "comparable" disaster has taken place but government programs or tax provisions were not available. Moreover, evaluations of disaster relief tax expenditures may be difficult because IRS collects limited information on the use of temporary disaster aid, as discussed above.

Literature on the Rehabilitation Tax Credits Has Often Not Focused on Community Development Aspects

While we identified numerous articles focused on historic restoration funded with the federal rehabilitation tax credits and the potential benefits of historic preservation in adapting currently vacant or underused property, we identified only one study that attempted to empirically measure the impact of the tax credit on community development. The study analyzed rehabilitation investment in the Boston office building market between 1978 and 1991 and found that the percentage of investment spending that would have occurred without the tax credit varied over time from about 60 to 90 percent.[99] Another study we reviewed used economic modeling to quantify some community development outputs associated with the 20 percent rehabilitation tax credit, such as estimated jobs and projected income data.[100] However, the study did not assess whether a rehabilitation project would have occurred in the absence of the credit nor did it compare community development in a project community with development in similar communities. As we previously reported, a complete evaluation of a credit's effectiveness also requires determining the costs of the program and an assessment of the program's economic and social benefits.

A challenge in attempting to evaluate how the rehabilitation tax credits affect measures of community development is that the credits have a dual purpose and are not solely intended to promote community development. Evaluators may have difficulty reviewing the program's effectiveness because they lack specific data on the geographic locations of the

[99] James D. Schilling, et al, "How Tax Credits Have Affected the Rehabilitation of the Boston Office Market," *Journal of Real Estate Research*, vol. 28, no. 4 (2006): 321-348.

[100] David Listokin, et al, *Second Annual Report on the Economic Impact of the Federal Historic Tax Credit*, Rutgers University Edward J. Bloustein School of Planning and Public Policy (New Brunswick, N.J.: 2011).

projects. In addition, the small size of the rehabilitation tax credit projects relative to the total activity in the area's economy makes it difficult to isolate the economic effects of the credit.

Conclusions

The annual federal commitment to community development is substantial, with revenue losses from community development-related tax expenditures alone totaling many billions of dollars. However, all too often even basic information is not available about who claims tax benefits from community development tax expenditures and which communities benefit from the activities supported by the tax expenditures. Further, relatively few evaluations of the effectiveness of community development tax expenditures have been done and when they have been done, results have often been mixed about their effects. These issues are familiar and long-standing for tax expenditures generally. We have made recommendations to OMB in 1994 and 2005 to move the Executive Branch forward in obtaining and using information to evaluate tax expenditures' performance, which can help in comparing their performance to that of related federal efforts.

GPRAMA offers a new opportunity to make progress on these issues. For those limited areas where OMB sets long-term, outcome-oriented, crosscutting priority goals for the federal government, a more coordinated and focused effort should ensue to identify, collect, and use the information needed to assess how well the government is achieving the goals and how those efforts can be improved. We look forward to progress in achieving GPRAMA's vision for a more robust basis for judging how well the government is achieving its priority goals. The Administration's interim crosscutting policy goals include some that identify tax expenditures among the contributing programs and activities. OMB's forthcoming guidance should be helpful in further drawing tax expenditures into the GPRAMA crosscutting performance framework.

Clearly, community development is but one of many areas where OMB could choose to set priority goals, and the interim goals to date encompass 1 of the 23 tax expenditures we reviewed. In this regard, Congress has a continuing opportunity to express its priorities about the goals that should be selected, including whether community development should be among the next cycle of goals. Whether or not OMB selects community development as a priority goal area, Congress also has the opportunity to urge more evaluation and focus Executive Branch efforts on addressing community development performance issues through oversight activities, such as hearings and formal and informal meetings with agency officials. Given the overlap and fragmentation across community development tax and spending programs, coordinated congressional efforts, such as joint hearings, may facilitate crosscutting reviews and ensure Executive Branch efforts are mutually reinforcing.

While GPRAMA provides a powerful opportunity to review how tax expenditures contribute to crosscutting goals, progress is likely to be incremental and require sustained focus. Evaluating the impact of community development efforts is inherently difficult and definitive performance conclusions often cannot be drawn. Data limitations are not easy or inexpensive to overcome, and resources to evaluate programs must compete with other priorities even as the federal government copes with significant fiscal challenges. Thus, judicious choices will need to be made as efforts to improve tax expenditure performance information available to policymakers continue.

Matters for Congressional Consideration

Congress may wish to use GPRAMA's consultation process to provide guidance on whether community development should be among OMB's long-term crosscutting priority goals as well as stress the need for evaluations whether or not community development is on the crosscutting priority list. Congress may also wish to focus attention on addressing community development tax expenditure performance issues through its oversight activities.

Agency Comments and Our Evaluation

We provided a draft of this report for review and comment to the Director of OMB, the Secretary of the Treasury, the Commissioner of Internal Revenue, as well as representatives of three federal agencies helping administer certain community development tax expenditures—the Director of the CDFI Fund, the Secretary of Housing and Urban Development (HUD), and the Secretary of the Interior (Interior). The Deputy General Counsel of OMB, the Director of HUD's Office of Community Renewal, the GAO Audit Liaison of Interior, and the Director of the CDFI Fund provided general comments. The first three provided email comments and the last provided a comment letter which is reprinted in appendix VIII. Only the HUD comments addressed our matters for congressional consideration directly, stating that the report provided minimal justification for them. Although the Secretary of the Treasury and Commissioner of Internal Revenue did not provide written comments, Treasury's Office of Tax Analysis and IRS's Office of Legislative Affairs provided technical changes, which we incorporated where appropriate.

While not commenting on our matters for congressional consideration, OMB staff reiterated the view that the Administration has made significant progress in addressing tax expenditures.[101] OMB staff cited assorted Fiscal Year 2013 budget proposals which it estimated would save billions of dollars by eliminating certain spending through the tax code and modifying other tax provisions. Some of the budget proposals relate to tax expenditures covered in this report, and we updated the text to reflect the President's latest proposals. We also updated our report to reflect the release of new interim crosscutting priority goals and that the Administration has identified some tax expenditures that contribute to these goals, as required under GPRAMA. OMB staff said that this is a significant step forward and will be important for broader GPRAMA implementation over 2012 and 2013. We agree that this inclusion of tax expenditures along with related other programs in the GPRAMA goals is an important step toward providing policymakers with the breadth of information needed to understand the full federal effort to accomplish national objectives. Finally, OMB staff expressed concern that we were suggesting that tax expenditures be addressed through a "one size fits all" framework. We do not believe this report or earlier products suggest that assessing the performance of tax expenditures be done in only one way. We have emphasized the need for greater scrutiny of tax expenditures and more transparency over how well they work and how they compare to other related federal programs.

In its comments, HUD described the report as substantive and comprehensive in addressing community development tax incentives with accurate information about the EZ/RC tax expenditures and HUD's role in their administration. However, HUD expressed the view that we had minimal justification for our matters for Congress to consider using the GPRAMA consultation process to express congressional priorities related to community development and to focus attention on community development tax expenditures' performance through its oversight activities. We disagree. The basic issues we found in this review—the all too often lack of even basic information about tax expenditures' use and

[101] OMB expressed this view in reviewing the tax expenditure discussion in a draft of GAO, *Follow-up on 2011 Report: Status of Actions Taken to Reduce Duplication, Overlap, and Fragmentation, Save Tax Dollars, and Enhance Revenue*, GAO-12-453SP (Washington, D.C.: Feb. 28, 2012). For that report, we determined that as of January 2012 the Executive Branch had not made progress in implementing our 2005 recommendations to review tax expenditures' performance and include tax expenditures along with related programs in budget presentations and Executive Branch performance management processes. See GAO-05-690 and GAO-11-318SP.

the relative paucity of evaluations of their performance—are among the key issues that could be mitigated through GPRAMA crosscutting goals and Congress's oversight activities. HUD also said we had skirted the issue of identifying programs with the greatest probability for elimination due to duplication, fragmentation, and overlap. This was not among our review's objectives and we believe the type of information we present can assist Congress in understanding what information is available to support such decisions. As we have previously reported, agencies engaging Congress in identifying which issues to address and what to measure are critical, and GPRAMA significantly enhances requirements on the consultation process.[102] With the release of the interim crosscutting goals, we believe that Congress has a continuing opportunity to express its priorities regarding community development ahead of the next goal cycle due in February 2014. HUD also noted the expiration of some tax expenditures and sought clarification about their inclusion in the report. Our report includes recently expired tax expenditures and where applicable discusses our prior findings and suggestions for Congress to consider if it wishes to extend the tax expenditures that have expired or create similar new ones. HUD also provided technical and editorial comments which we incorporated as appropriate.

In its comments, Interior disagreed with several findings. Interior characterized our report as expressing the view that unwarranted overlap, fragmentation, or duplication existed involving the 20 percent historic rehabilitation credit that Interior's NPS helps administer. Interior agreed that the tax credit—which has a primary purpose to preserve and rehabilitate historic buildings—has a two-fold mission to also promote community development by revitalizing historic districts and neighborhoods. However, Interior disagreed that the historic rehabilitation tax credit overlaps or duplicates with other community development tax expenditures. Interior stated that only the tax credit has a specific purpose to preserve historic buildings, that the tax credit is not targeted to certain census tracts or low-income areas, and that Congress generally did not exclude historic tax credit users from also using other federal programs. In addition, Interior said that the administration of the historic rehabilitation tax credit was not fragmented, but instead was an example of joint administration that effectively draws upon the best resources of two federal agencies in a coordinated way to implement the law. Finally,

[102] See GAO, *Government Performance: GPRA Modernization Act Provides Opportunities to Help Address Fiscal, Performance, and Management Challenges*, GAO-11-466T (Washington, D.C.: Mar. 16, 2011).

Interior disagreed with our finding that limited information is available about the effectiveness of the 20 percent historic rehabilitation tax credit.

Our report does not characterize any overlap, fragmentation, or duplication as “unwarranted.” Rather, we provide a factual description based on standard definitions used in many GAO reports of the relationships between the various tax expenditures that have at least a partial purpose of supporting community development. We make the same point that Interior raises as well—that Congress was aware of and often designed rules to govern the interrelationships among these tax expenditures. Accordingly, our report says these interrelationships do not necessarily represent unnecessary duplication. Based on Interior’s comments, however, we further clarified our text to note that one of the differences between the historic rehabilitation credit and the other community development tax expenditures is that the rehabilitation credit targets certain older structures. Regarding Interior’s comment about fragmentation in the credit’s administration, our report describes the roles of IRS and NPS and says fragmentation may sometimes be necessary when the resources and expertise of more than one agency are required, such as in the case of NPS overseeing technical standards for historic preservation. As we reported, however, fragmentation can result in administrative burdens when an applicant needs to apply at multiple agencies to finance a specific project, such as restoring a historic building as low-income housing. Finally, regarding Interior’s comments on the effectiveness of the rehabilitation tax credit, we continue to note that little is known about the effectiveness of the credit as a community development program given that we identified only one empirical analysis of the effect of the tax credit on community development. Interior pointed specifically to reports based on an economic model NPS helped fund. However, as our report states, the modeling reports did not assess what would have happened in the absence of the historic rehabilitation tax credits or compare development in tax credit project communities to similar communities.

In its comment letter (reprinted in app. VIII), the CDFI Fund said that it appreciated GAO’s ongoing efforts to improve and strengthen performance measurement and evaluation of community and economic development programs. The CDFI Fund said that it has committed resources to systematically evaluate the impacts of the NMTC program and proposed to develop tools that would have provided standard benchmarking and estimation techniques for measuring outcomes and coordinating reporting for projects with multiple sources of funding. Our literature review for this report drew on a study contracted by the CDFI Fund that provided an overview of the inherent challenges in evaluating community development programs. The literature review will inform a forthcoming independent evaluation of the NMTC to be issued later this spring. The CDFI Fund also provided technical comments which we incorporated as appropriate.

The CDFI Fund said that it continued to have strong reservations with our 2010 option for Congress to consider offering grants in lieu of NMTC tax credits if it extends the NMTC program. As stated in our 2010 report and reiterated as a cost saving option in our 2011 duplication report, our analysis suggests that converting the NMTC to a grant program would increase the amount of the equity investment that could be placed in low-income businesses and make the federal subsidy more cost-effective.[103] Our 2010 report addressed both concerns that the CDFI Fund reiterated in its comments on this report.

As arranged with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days after the date of this report. At that time, we will send copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, the Commissioner of Internal Revenue, and other interested parties. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have questions about this report, please contact me at (202) 512-9110 or brostekm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Other key contributors to this report are listed in appendix IX.

Michael Brostek
Director, Strategic Issues

[103] See GAO-10-334 and GAO-11-318SP.

List of Requesters

The Honorable Sander Levin
Ranking Member
Committee on Ways and Means
House of Representatives

The Honorable Lloyd Doggett
Ranking Member
Subcommittee on Human Resources
Committee on Ways and Means
House of Representatives

The Honorable Jim McDermott
Ranking Member
Subcommittee on Trade
Committee on Ways and Means
House of Representatives

The Honorable Richard E. Neal
Ranking Member
Subcommittee on Select Revenue Measures
Committee on Ways and Means
House of Representatives

The Honorable Earl Blumenauer
House of Representatives

The Honorable Ron Kind
House of Representatives

The Honorable Bill Pascrell, Jr.
House of Representatives

The Honorable Linda Sánchez
House of Representatives

Appendix I: Objectives, Scope, and Methodology

Our objectives were to (1) identify tax expenditures that promote community development, and areas of potential overlap and interactions among them; (2) assess data and performance measures available and used to assess performance for community development tax expenditures; and (3) determine what previous studies have found about the effectiveness of selected tax expenditures in promoting community development.

Identification of Community Development Tax Expenditures and Interactions

While both the U.S. Department of the Treasury (Treasury) and the Joint Committee on Taxation (JCT) annually compile a list of tax expenditures and estimates of their cost, the Treasury and JCT lists differ somewhat in terms of what is listed as a tax expenditure and how many specific provisions may be combined in a listed tax expenditure. Our count of community development tax expenditures is based on the Treasury and JCT published tax expenditure lists, detailed below. Where a single tax expenditure listing encompasses more than one tax code provision, we separately describe those provisions to provide a more detailed perspective of the mix of tax assistance available for community development.

Federal agencies do not have a standard definition of what constitutes community or economic development. To identify community development tax expenditures, we developed a list of community development activities based on various federal sources and compared these activities to the authorized uses of tax expenditures. As a starting point for developing the list of activities, we used the definition of the community and regional development budget function and its three subfunctions—urban community development, rural and regional development, and disaster relief and insurance.[104] Both Treasury and JCT list tax expenditures by budget function.

We also used descriptions of spending programs under the community and regional development budget function as detailed in the 2010 *Catalog of Federal Domestic Assistance* (CFDA).[105] We further reviewed

[104] GAO, *A Glossary of Terms Used in the Federal Budget Process*, GAO-05-734SP (Washington, D.C.: Updated Sept. 2005), 136-137.

[105] General Services Administration, 2010 *Catalog of Federal Domestic Assistance* (Washington, D.C.: Oct. 2010).

descriptions of allowable uses under the Community Development Block Grant (CDBG)—the largest single spending program in the budget function.[106] Finally, we reviewed the community development definition for the Community Reinvestment Act (CRA) and identified certain tax expenditures that banks can use in meeting CRA community investment tests.[107] We included tax expenditures targeted to certain geographies, such as low-income areas or designated disaster areas, or specific populations, such as Native Americans. Table 7 summarizes the definition of community development for purposes of this report.

Table 7: Summary Definition of Community Development

Category	Activities included[a]
Community development in urban and rural areas[b]	Development of physical and financial infrastructure designed to promote viable community economies, including communication infrastructure facilities developed as an integral part of a community development program.
Disaster relief and insurance[b]	Programs intended to help communities and families recover from natural disasters.
Assistance to specific geographies and populations[c]	Activities that revitalize or stabilize certain geographies (e.g. low- or moderate-income geographies; Appalachia) or provide economic development assistance to specific populations, such as Native Americans.

Source: GAO analysis of descriptions of spending programs under the community and regional development budget function, and as detailed in the 2010 *Catalog of Federal Domestic Assistance* (CFDA), descriptions of allowable uses under the Community Development Block Grant (CDBG), and the community development definition for the Community Reinvestment Act (CRA).

[a]Activities are those we compiled from descriptions of spending programs under the community and regional development budget function, and as detailed in the 2010 CFDA, descriptions of allowable uses under CDBG, and the community development definition for CRA.

[b]The category is derived from the description of the Community and Regional Development budget function and related subfunctions. See GAO, *A Glossary of Terms Used in the Federal Budget Process*, GAO-05-734SP (Washington, D.C.: Updated Sept. 2005).

[c]The category is derived from descriptions of spending programs detailed in the 2010 CFDA, descriptions of allowable uses under CDBG, and the community development definition for CRA.

We compiled a preliminary list of tax expenditures for fiscal year 2010 listed under community and regional development budget function by

[106] U.S. Department of Housing and Urban Development, *Economic Development Toolkit* (Washington, D.C.: April 2010).

[107] 12 CFR Parts 25, 228, 345 and 563e (as listed on Feb. 10, 2011). The Community Reinvestment Act (CRA) requires regulators to evaluate periodically each insured depository institution's record in helping meet the credit needs of its entire community. That record is taken into account in considering an institution's application for deposit facilities, including mergers and acquisitions. Investing in certain community development projects eligible for tax incentives can help banks earn positive consideration toward their CRA regulatory ratings.

Treasury and JCT. Our universe included expired tax expenditures listed by either Treasury or JCT which had estimated revenue losses or outlays in fiscal year 2010. While the tax expenditure lists published by Treasury and JCT are generally similar, specific tax expenditures reported by each under the community and regional development budget function differed, as shown in table 8. Four tax expenditures were listed by both under the community and regional development budget function. Another four tax expenditures were reported by both Treasury and JCT but appeared under community and regional development function on one list and under a different budget function on the other list. Fourteen tax expenditures were reported under the community and regional development budget function by either Treasury or JCT, including eight tax expenditures supporting disaster relief and recovery.[108]

Table 8: List of Tax Expenditures Reported by Treasury and JCT under the Community and Regional Development Budget Function for Fiscal Year 2010

		Tax expenditure list	
Tax expenditure	**Budget function**	**Treasury**	**JCT**
Listed by both under the community and regional development budget function			
Empowerment Zones and Renewal Communities (EZ/RC)[a]	Community and Regional Development	Yes	Yes
New Markets Tax Credit (NMTC)	Community and Regional Development	Yes	Yes
Recovery Zone bonds[b]	Community and Regional Development	Yes	Yes
Tribal Economic Development Bonds	Community and Regional Development	Yes	Yes
Listed by both but either Treasury or JCT listed under another budget function			
Build America Bonds (BAB)	Community and Regional Development (JCT); General Purpose Fiscal Assistance (Treasury)	Yes	Yes
Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	Community and Regional Development (JCT); Natural Resources and Environment (Treasury)	Yes	Yes
Exclusion of interest for airport, dock, and similar bonds	Community and Regional Development (Treasury); Transportation (JCT)	Yes	Yes
10 percent credit for rehabilitation of structures (other than historic)	Community and Regional Development (Treasury); Commerce and Housing (JCT)	Yes	Yes

[108] We also identified one tax expenditure supporting disaster relief and recovery—the employee retention credit for employers in certain federal disaster areas—which is listed by Treasury under the education, training, employment, and social services budget function.

Tax expenditure	Budget function	Tax expenditure list	
		Treasury	JCT
Listed by only one under the community and regional development budget function			
Credit to holders of Gulf and Midwest tax credit bonds[c]	Community and Regional Development	Yes	No
District of Columbia tax incentives	Community and Regional Development	No	Yes
Eliminate requirement that financial institutions allocate interest expense attributable to tax-exempt interest	Community and Regional Development	No	Yes
Employee retention credit for employers in certain federal disaster areas[c]	Community and Regional Development	Yes	No
Exemption of certain mutuals' and cooperatives' income	Community and Regional Development	Yes	No
Expensing of environmental remediation costs	Community and Regional Development	Yes	No
Five-year carryback period for certain net operating losses of electric utility companies	Community and Regional Development	No	Yes
Gulf Opportunity Zone[c]	Community and Regional Development	No	Yes
Indian employment credit	Community and Regional Development	No	Yes
Katrina Emergency Act[c]	Community and Regional Development	No	Yes
Kansas disaster relief[c]	Community and Regional Development	No	Yes
Midwest disaster relief[c]	Community and Regional Development	No	Yes
National disaster relief[c]	Community and Regional Development	No	Yes
New York Liberty Zone[c]	Community and Regional Development	No	Yes
Three-year carryback of small businesses' and farmers' casualty losses attributable to presidentially declared disasters[c]	Community and Regional Development	No	Yes

Sources: OMB, Analytical Perspectives, *Budget of the United States Government*, Fiscal Year 2012 (Washington, D.C.: 2011); JCT, *Estimates of Federal Tax Expenditures for Fiscal Years 2010-2014*, JCS-3-10 (Washington, D.C.: Dec. 15, 2010).

[a]JCT listed Empowerment Zones and Renewal Communities separately.

[b]Includes Recovery Zone Economic Development Bonds (RZEBD) and Recovery Zone Facility Bonds (RZFB).

[c]The tax expenditure is intended to support disaster relief and recovery.

Whereas JCT lists six disaster tax packages as tax expenditures, Treasury officials told us that disaster-related revenue losses were included in Treasury estimates for specific tax expenditures made available in disaster areas. For example, revenue losses from additional allocations of the Low-Income Housing Tax Credit for the GO Zone were incorporated into Treasury's Low-Income Housing Tax Credit estimate. To avoid double-counting, we dropped two tax expenditures—credit to holders of Gulf and Midwest tax credit bonds, and employee retention credit for employers in certain federal disaster areas—listed separately by Treasury that were included in the JCT disaster package estimates. We used JCT and Internal Revenue Service (IRS) documents to identify specific tax code provisions within the disaster relief tax expenditures on JCT's list.[109] Appendix VI lists 45 tax provisions and special rules in the six disaster relief tax expenditures included in JCT's list. We did not sum disaster revenue loss estimates to avoid double counting amounts already included in estimates for specific tax expenditures.

Using our list of community development activities as criteria, we also identified tax expenditures reported by Treasury under other budget functions that appeared to be at least partially intended to support activities we had identified as community development activities. Table 9 includes six tax expenditures reported by Treasury under other budget functions and our rationale for inclusion.

Table 9: List of Tax Expenditures Reported by Treasury Outside the Community and Regional Development Budget Function That Support Community Development (Fiscal Year 2010)

Tax expenditure	Budget function	Rationale for inclusion
Credit for holders of qualified zone academy bonds (QZAB)	Education, training, employment, and social services	The tax credit is targeted towards public schools in Empowerment Zones and Renewal Communities (which are listed under the community and regional development budget function). Also, banks may generally receive positive consideration under Community Reinvestment Act (CRA) requirements for bond purchases to provide community services to low- or moderate-income individuals and revitalize and/or stabilize low- or moderate-income areas.
Exclusion of gain or loss on sale or exchange of certain brownfield sites	Natural resources and environment	The exclusion funds redevelopment of brownfields similar to the expensing of environmental remediation cost tax expenditure listed by Treasury under the community and regional development budget function.

[109] Documents used include, but are not limited to: IRS, *Tax Law Changes Related to Hurricanes Katrina, Rita and Wilma* (FS-2006-12), Jan. 2006; JCT, *General Explanation of Tax Legislation Enacted in the 110th Congress*, JCS-1-09 (Washington, D.C.: Mar. 18, 2009); JCT, *Technical Explanation of H.R. 3768, the "Katrina Emergency Tax Relief Act of 2005," as Passed by the House and the Senate on September 21, 2005*, JCX-69-05 (Washington, D.C.: Sep. 22, 2005); JCT, *Technical Explanation of the "Job Creation and Worker Assistance Act of 2002,"* JCX-12-02 (Washington, D.C.: Mar. 6, 2002); and *JCT, Technical Explanation of the Revenue Provisions of H.R. 4440, the "Gulf Opportunity Zone Act of 2005," as Passed by the House of Representatives and the Senate*, JCX-88-05 (Washington, D.C.: Dec. 16, 2005).

Tax expenditure	Budget function	Rationale for inclusion
Exclusion of interest on public purpose state and local bonds	General purpose fiscal assistance	Tax-exempt bonds finance public infrastructure and can be used to finance transportation and water system improvements similar to private activity bond tax expenditures listed under the community and regional development budget function. This public purpose bond tax expenditure is similar to the Build America Bonds tax expenditure listed by JCT under the community and regional development budget function.
Exclusion of interest on rental housing bonds	Commerce and housing	The tax-exempt bonds finance affordable rental housing activities which are also eligible activities under the Community Development Block Grant (CDBG). Banks may receive positive consideration under CRA requirements for investing in rental housing bonds to support affordable housing.
Low-Income Housing Tax Credit (LIHTC)	Commerce and housing	The tax credit funds affordable rental housing activities, which are also eligible activities under CDBG. Banks also may receive positive consideration under CRA requirements for investing in LIHTC projects.
20 percent credit for rehabilitation of historic structures	Natural resources and environment	This credit is similar to the 10 percent nonhistoric rehabilitation tax credit listed by Treasury under the community and regional development budget function. Historic preservation activities are also eligible under CDBG. Banks may receive positive consideration under CRA requirements for investing in historic preservation projects using the tax credit.

Source: GAO analysis.

Table 10 shows how we categorized the community development tax expenditures as primarily promoting community development versus supporting community development and other federal mission areas.

Table 10: Overview of Community Development Tax Expenditures by Category

Category	Basis for categorization	Number of tax expenditures
Primarily promoting community development	We included tax expenditures listed by Treasury or JCT only under the community and regional development budget function and not any other budget function. In part to avoid potential double counting of revenue losses for disaster tax aid, we further categorized seven tax expenditures supporting disaster relief and recovery in certain areas from tax expenditures. Five tax expenditures primarily promoting community development are targeted to economically distressed areas.	12
Supporting community development and other federal mission areas	We included tax expenditures listed by both Treasury and JCT, with either Treasury or JCT listing the tax expenditure under a budget function other than community and regional development. We also included the tax expenditures listed by Treasury under budget functions other than community and regional development whose description and intended purposes align with our list of community development activities. Based on external feedback, we categorized both tax expenditures brownfields redevelopment as supporting community development.[a] Based on external feedback, we distinguished large government bond tax expenditures that also may support community development, but community development activities account for only a portion of the bonds. To avoid overstating federal support for community development, we did not sum the revenue losses for the two general bond provisions.	11

Source: GAO analysis.

[a]Treasury listed expensing of environmental remediation costs under the community and regional development budget function but listed the exclusion of gain or loss on the sale or exchange of certain brownfield sites under the natural resources and environment budget function.

We shared the preliminary universe of community development tax expenditures with Treasury, IRS, Office of Management and Budget (OMB) and CRS. We also shared the preliminary universe with federal agencies helping administer specific community development tax expenditures, including the Community Development Financial Institutions (CDFI) Fund which administers the New Markets Tax Credit; the Department of Housing and Urban Development (HUD) which helps administer the Empowerment Zones and Renewal Communities programs; and the National Park Service (NPS) which helps administer rehabilitation tax credits. We asked these agencies to review the preliminary universe and confirm that the tax expenditures could be used to promote community development, delete tax expenditures that were listed incorrectly or are duplicative, or add tax programs that we had omitted.

Based on feedback from federal agencies, we refined the universe of community development tax expenditures as appropriate. We excluded six tax expenditures reported under the community and regional budget function, as shown in table 11. As discussed above, we excluded two disaster tax expenditures listed by Treasury to avoid double counting disaster aid packages listed by JCT. Similarly, we excluded a District of Columbia tax expenditure listed by JCT to avoid duplication with Treasury's estimate for Empowerment Zones and Renewal Communities. We excluded three tax expenditures listed by Treasury or JCT under the community and regional development budget function that were not specifically linked to community development activities. Our final universe does not include various energy tax expenditures that may be claimed for bank investments used to meet CRA regulatory requirements nor tax expenditures for deductible charitable contributions. Although certain charitable contributions may fund organizations or activities that contribute to community development, we excluded charitable contribution tax deductions from the universe based on external feedback that it is not feasible to isolate the community development portion of the large charitable contributions tax expenditures or link the charitable aid to specific communities.

Table 11: Tax Expenditures Reported under the Community and Regional Development Budget Function but Excluded from Final Universe

Tax expenditure	Rationale for exclusion
Credit to holders of Gulf and Midwest Tax Credit Bonds	The tax credit was excluded to avoid duplication with the Gulf opportunity zone and Midwest disaster relief tax expenditures.
District of Columbia tax incentives	The JCT tax expenditure estimate for the mix of tax incentives targeted to the District of Columbia as excluded to avoid duplication with Treasury's Empowerment Zones and Renewal Communities estimate.
Eliminate requirement that financial institutions allocate interest expense attributable to tax-exempt interest	According to officials we interviewed, the tax expenditure is not specifically tied to community development activities.
Employee retention credit for employers in certain federal disaster areas	The tax credit was excluded to avoid duplication with the Katrina Emergency Act, Gulf opportunity zone, Kansas disaster relief, and Midwest disaster relief tax expenditures.
Exemption of certain mutuals' and cooperatives' income	According to officials we interviewed, the tax expenditure is not specifically tied to community development activities.
Five-year carryback period for certain net operating losses of electric utility companies	According to officials we interviewed, the tax expenditure is not specifically tied to community development activities.

Sources: GAO analysis.

See appendix II for our final universe of 23 community development tax expenditures. This count reflects the number of tax expenditures as reported on the Treasury or JCT lists. Whereas appendix II lists the Empowerment Zones and Renewal Communities (EZ/RC) as a single tax expenditure consistent with Treasury's list, appendix IV details the various tax incentives available in EZs and RCs. We used Treasury revenue loss estimates for each tax expenditure except in cases where only JCT reported a tax expenditure. Where appropriate, we summed revenue loss estimates to approximate the total federal revenue forgone through tax expenditures that support community development.[110] Certain tax expenditures, including tax credit and direct payment bonds, also have associated outlays, and we included those outlays in presenting total costs. While sufficiently reliable as a gauge of general magnitude, the sum of the individual tax expenditure estimates does not take into account interactions between individual provisions.

To identify areas of potential overlap among the tax expenditures, we used the definitions from our March 2011 report on duplication in government programs:

- Overlap occurs when multiple agencies or programs have similar goals, similar activities or strategies to achieve them, or similar target beneficiaries;
- Fragmentation refers to circumstances where multiple agencies or offices are involved in serving the same broad area of national need; and
- Duplication occurs when two or more agencies or programs are engaged in the same activities or provide the same services to the same beneficiaries.[111]

Using information from prior GAO products, publications from CRS, IRS, JCT, Office of the Comptroller of Currency (OCC), and OMB; as well as documentation from other federal agencies helping administer specific tax expenditures, we compiled publicly available information about each tax expenditure's design and implementation, including descriptions; specific geographies or populations targeted; volume caps and other allocation limits; and roles of entities within and outside the federal government in

[110] We did not sum JCT estimates for disaster tax expenditures to avoid double counting amounts included in estimates for Treasury tax expenditures we identified as promoting community development. Also, we did not sum the total costs for two large bond tax expenditures to avoid overstating federal support for community development.

[111] GAO, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, GAO-11-318SP (Washington, D.C.: Mar. 1, 2011).

administration.[112] Based on the information we collected and the clarifications that the agencies provided, we determined that this descriptive information was sufficiently reliable for the purposes of this engagement to identify potential duplication, overlap, and fragmentation. We reviewed the Internal Revenue Code and IRS regulations to identify allowable interactions or limits on using community development tax expenditures together. Where specified in tax law and regulations, we also identified interactions and limits on using tax expenditures with other federal spending programs. The review of allowable interactions and limits was not exhaustive—we did not search documentation from all federal agencies carrying out community development programs, and regulations for related spending programs may also document interactions between those programs and the community development tax expenditures.

Tax Expenditure Information and Performance Measures

To determine what data and performance measures are available and used to assess community development tax expenditures, we identified the data elements and types of information that IRS and federal agencies collect. We also reviewed tax forms, instructions, and other guidance and interviewed IRS officials to determine the types of information that IRS collects on how the tax expenditures in our universe are used. For certain community development tax expenditures in our universe where other federal agencies help with administration—the New Markets Tax Credit, Empowerment Zone/Renewal Community tax incentives, and the rehabilitation tax credits—we reviewed prior GAO reports, and interviewed and collected information from the CDFI Fund, HUD, and NPS to identify their roles in helping administer the tax expenditures and any measures the agencies use to review tax expenditure performance. We also interviewed officials and reviewed documentation from OMB, Treasury, IRS, HUD, and NPS about efforts to assess performance for community development tax expenditures and any crosscutting reviews of related tax and spending programs. For the purposes of this report, we focused on information collected by federal agencies. State and local entities also collect information on some of the tax expenditures included in our universe. For example, housing finance agencies collect data on low-income housing tax credit projects. Similarly, state and local bond

[112] This report includes a list of Related GAO Products. See also CRS, *Tax Expenditures: Compendium of Background on Individual Provisions*, S. Prt. 111-58 (Washington, D.C.: Dec. 28, 2010).

financing authorities may have additional data on specific projects and activities funded with federally subsidized bond financing.

Previous Studies of Selected Tax Expenditures

To determine what previous studies have found about effectiveness for selected tax expenditures, we conducted a literature review for selected tax expenditures—the Empowerment Zone/Renewal Community tax programs, the New Markets Tax Credit program, and tax expenditures available for certain disaster areas. We selected these tax expenditures because they account for most of the 2010 revenue loss for the tax expenditures that primarily promote community development. The EZ tax incentives and the NMTC expired after December 31, 2011.[113] For the EZ/RC and NMTC programs, we focused on literature published since our 2010 reports on these programs.[114] We also selected the rehabilitation tax credits;[115] these multipurpose tax expenditures support community development as well another federal mission area, and they can be used in combination with other community development tax expenditures. We searched databases, such as Proquest, Google Scholar, and Econlit, for studies through May 2011. To target our literature review on effectiveness, we identified studies that attempted to measure the impact of the incentives on certain measures of community development, such as the poverty and unemployment rate. We reviewed studies that met the following criteria:

- studies that include original data analysis,
- studies based on empirical or peer-reviewed research, and
- studies not derived from or sponsored by associations representing industry groups and other organizations that may benefit from adjustments to laws and regulations concerning community development tax expenditures.

Using these criteria, we identified and reviewed eight studies on the EZ/RC programs published since our most recent report on the topic. For NMTC, although we did not identify any new studies meeting our criteria,

[113] The set of RC tax incentives had expired after December 31, 2009.

[114] GAO-10-464R and GAO-10-334.

[115] A 20 percent tax credit applies for rehabilitating certified historic structures, and a 10 percent tax credit applies for rehabilitating noncertified structures placed into service before 1936.

we included a literature review study contracted by CDFI Fund that was intended to provide the groundwork for a forthcoming evaluation and provides an overview of inherent challenges in evaluating community development programs.[116] Additionally, we summarized our prior findings about the selected tax expenditures, and these findings are not generalizable to the universe of community development tax expenditures. For the rehabilitation tax credits, we identified one study that used empirical methods to measure one aspect of community development. We also included an academic study prepared with assistance from NPS that highlights some limitations in attempting to evaluate the effectiveness of the rehabilitation tax credits. For disaster relief incentives, we identified peer reviewed articles that made potentially useful qualitative points, but the articles did not use rigorous or empirical methods to examine effectiveness.[117] See the bibliography for a listing of the studies we reviewed in detail.[118]

We conducted this performance audit from January 2011 through February 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[116] Martin D. Abravanel, Nancy M. Pindus, and Brett Theodos, *Evaluating Community and Economic Development Programs: A Literature Review to Inform Evaluation of the New Markets Tax Credit Program*. Prepared by the Urban Institute at the request of the U.S. Department of the Treasury Community Development Financial Institutions (CDFI) Fund (Washington, D.C.: 2010).

[117] David Listokin; et al., *Second Annual Report on the Economic Impact of the Federal Historic Tax Credit*, Rutgers University Edward J. Bloustein School of Planning and Public Policy (New Brunswick, N.J.: 2011).

[118] See the Related GAO Products section of this report for a list of previously issued products we reviewed.

Appendix II: Universe of Community Development Tax Expenditures and Estimates of Revenue Losses and Outlays for Fiscal Year 2010

(Dollars in millions)

Number	Tax expenditure	Fiscal year 2010 estimated revenue losses	Fiscal year 2010 estimated outlays	Budget function(s)	Type	Taxpayer group	Enactment date[a]	Expiration date (if applicable)[a]
Tax expenditures primarily promoting community development								
1.	Empowerment Zones and Renewal Communities (EZ/RC)[b]	$730	N/A	Community and regional development	Multiple	Individual and corporate	8/10/1993 (EZ); 12/21/2000 (RC)	12/31/2009 (RC); 12/31/2011 (EZ)[c]
2.	New Markets Tax Credit	$720	N/A	Community and regional development	Credit	Individual and corporate	12/21/2000	12/31/2011
3.	Recovery Zone bonds[d]	$0	$60	Community and regional development	Multiple[e]	Individual and corporate	2/17/2009	12/30/2010
4.	Tribal Economic Development Bonds	$10	N/A	Community and regional development	Exclusion[e]	Individual and corporate	2/17/2009	N/A[f]
5.	Indian employment credit[g]	[h]	N/A	Community and regional development	Credit	Individual and corporate	8/10/1993	12/31/2011
Tax expenditures supporting community development and other federal mission areas								
6.	Low-Income Housing Tax Credit (LIHTC)[i]	$5,650	N/A	Commerce and housing	Credit	Individual and corporate	10/22/1986	N/A
7.	20 percent credit for rehabilitation of historic structures	$390	N/A	Natural resources and environment (Treasury); commerce and housing (JCT)	Credit	Individual and corporate	11/5/1990	N/A
8.	10 percent credit for rehabilitation of structures (other than historic)	$20	N/A	Community and regional development (Treasury); commerce and housing (JCT)	Credit	Individual and corporate	11/5/1990	N/A

(Dollars in millions)

Number	Tax expenditure	Fiscal year 2010 estimated revenue losses	Fiscal year 2010 estimated outlays	Budget function(s)	Type	Taxpayer group	Enactment date[a]	Expiration date (if applicable)[a]
9.	Exclusion of gain or loss on sale or exchange of certain brownfield sites	$70	N/A	Natural resources and environment (Treasury); commerce and housing (JCT)	Exclusion	Individual and corporate	10/22/2004	12/31/2009[j]
10.	Expensing of environmental remediation costs	$10	N/A	Community and regional development	Deferral	Individual and corporate	8/5/1997	12/31/2011
11.	Exclusion of interest on rental housing bonds	$1,050	N/A	Commerce and housing	Exclusion	Individual and corporate	12/5/1980	N/A
12.	Exclusion of interest for airport, dock, and similar bonds	$840	N/A	Community and regional development (Treasury); Transportation (JCT)	Exclusion	Individual and corporate	6/28/1968	N/A
13.	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	$460	N/A	Natural resources and environment (Treasury); community and regional development (JCT)	Exclusion	Individual and corporate	6/28/1968 (water and sewage facilities); 10/22/1986 (hazardous waste facilities)	N/A
14.	Credit for holders of qualified zone academy bonds (QZAB)	$190	$10	Education, training, employment, and social services	Credit[e]	Corporate	8/5/1997	12/31/2011[k]
15.	Exclusion of interest on public purpose state and local bonds[l]	$30,440	N/A	General purpose fiscal assistance	Exclusion	Individual and corporate	8/16/1954[l]	N/A
16.	Build America Bonds[l]	$0	$1,850	General purpose fiscal assistance (Treasury); community and regional development (JCT)	Credit[e]	Individual and corporate	2/17/2009	12/31/2010

(Dollars in millions)

Number	Tax expenditure	Fiscal year 2010 estimated revenue losses	Fiscal year 2010 estimated outlays	Budget function(s)	Type	Taxpayer group	Enactment date[a]	Expiration date (if applicable)[a]
Disaster relief and recovery tax expenditures[g]								
17.	New York Liberty Zone	[n]	N/A	Community and regional development	Multiple[o]	Individual and corporate	3/9/2002	Varied
18.	Katrina Emergency Act	[n]	N/A	Community and regional development	Multiple[o]	Individual and corporate	9/23/2005	Varied
19.	Gulf Opportunity Zone	$700	N/A	Community and regional development	Multiple[o]	Individual and corporate	12/22/2005	Varied
20.	Kansas disaster relief	[n]	N/A	Community and regional development	Multiple[o]	Individual and corporate	6/18/2008	Varied
21.	Midwest disaster relief	$1,100	N/A	Community and regional development	Multiple[o]	Individual and corporate	10/3/2008	Varied
22.	National disaster relief	$400	N/A	Community and regional development	Multiple[o]	Individual and corporate	10/3/2008	Varied
23.	Three-year carryback of small businesses' and farmers' casualty losses attributable to presidentially declared disasters	[p]	N/A	Community and regional development	Deduction	Individual	8/5/1997	N/A

Sources: GAO analysis of Congressional Budget Office , IRS, JCT and OMB documentation.

Notes: Revenue losses and outlay effects reflect Treasury estimates from the President's Fiscal Year 2012 budget unless otherwise specified. Treasury rounds revenue losses to the nearest $10 million. JCT rounds revenue losses to the nearest $100 million and does not report an estimated amount for revenue losses of less than $50 million. Revenue loss estimates do not incorporate any behavioral responses and thus do not necessarily represent the exact amount of revenue that would be gained if a specific tax expenditure were repealed.

N/A: Not applicable.

[a]Enactment dates reflect the original enactment. Some tax expenditures originally due to expire may have been extended over time. Expiration date as of February 17, 2012.

[b]The EZ and RC programs offered packages of tax incentives in specific designated communities. Appendix IV lists seven EZ and six RC tax incentives.

[c]According to HUD officials, all RC tax programs expired and are no longer available to RC designees as of December 31, 2009. All EZ tax programs expired and are no longer be available to EZ designees after December 31, 2011.

[d]Includes both Recovery Zone Economic Development Bonds and Recovery Zone Facility Bonds.

[e]For certain tax credit bonds, state, local, and tribal government issuers had the option of receiving a direct payment from the U.S. Treasury in the amount of the tax credit. Appendix IV describes these bond tax expenditures in more detail.

[f]All $2 billion in available Tribal Economic Development bond volume was to be allocated by February 28, 2010, but Treasury and IRS have extended deadlines in order to reallocate unused bond authority. According to Treasury, tribal bonds issued as of November 2011 represented less than 3 percent of the available authority.

[g]Tax expenditure listed only by JCT.

[h]JCT indicated a revenue loss of less than $50 million.

[i]The American Recovery and Reinvestment Act (Recovery Act) established two funding programs that provide capital investments to LIHTC projects: (1) the Tax Credit Assistance Program (TCAP) administered by HUD and (2) the Grants to States for Low-Income Housing Projects in Lieu of Low-Income Housing Credits Program under Section 1602 of the Recovery Act (Section 1602 Program) administered by Treasury. The administration of the TCAP and Section 1602 programs is entirely separate from the administration of the LIHTC program. For fiscal year 2010, HUD outlayed about $1.05 billion of TCAP funds and Treasury had outlayed about $1.9 billion of Section 1602 Program funds.

[j]In order to use the tax exclusion, brownfield properties must be purchased by December 31, 2009.

[k]No allocation of QZAB tax credits is permitted after this date, though claimants are allowed to carry forward the provisions for 2 years.

[l]While this bond provision may support community development, community development activities account for only a portion of the bond provisions' costs.

[m]The exclusion of interest on public-purpose state and local bonds has been in effect, in one form or another, since the enactment of the Revenue Act of 1913, ch. 16, 38 Stat. 114.

[n]JCT indicated a revenue loss of less than $50 million in fiscal year 2010.

[o]Appendix VI lists the specific tax provisions and special rules available for certain presidentially declared disaster areas as well as projected revenue estimates at the time of enactment. Whereas revenue loss estimates are based on data about tax benefits claimed, projected revenue estimates for each package at time of enactment were based on projections of taxpayer use of tax benefits available; actual use of and resulting revenue losses for some provisions may have been lower than anticipated at time of enactment.

[p]JCT did not quantify revenue losses for this tax expenditure.

Appendix III: Multiple Tax Expenditures Fund Community Development, Fiscal Year 2010

(Dollars in millions)

Category	Specific tax expenditure	Fiscal year 2010 total costs[a]
Tax expenditures primarily promoting community development in distressed communities	Empowerment Zones and Renewal Communities	$730
	New Markets Tax Credit	$720
	Other, subtotal	$70
	• Recovery Zone bonds[b]	$60[c]
	• Tribal Economic Development Bonds	$10
	• Indian employment credit	[d]
Total – tax expenditures primarily promoting community development in distressed areas		**$1,520**
Tax relief for certain presidentially declared disaster areas[e]	See Appendix VI for tax provisions and special rules available for disaster relief and recovery for specific presidentially declared disaster areas	[e]
Tax expenditures supporting community development and other federal mission areas	**Affordable housing, subtotal**	$6.700
	• Low-Income Housing Tax Credit[f]	$5,650
	• Exclusion of interest on rental housing bonds	$1,050
	Rehabilitation of older structures, subtotal	**$410**
	• 20 percent credit for rehabilitation of historic structures	$390
	• 10 percent credit for rehabilitation of structures (other than historic)	$20
	Brownfields development, subtotal	**$80**
	• Exclusion of gain or loss on sale or exchange of certain brownfield sites	$70
	• Expensing of environmental remediation costs	$10
	Infrastructure improvement, subtotal	**$1,500**
	• Exclusion of interest for airport, dock, and similar bonds	$840
	• Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	$460
	• Credit for holders of qualified zone academy bonds	$200[g]
Total – tax expenditures supporting community development and other federal mission areas		**$8,690**
Bond tax expenditures that may support community development[h]	Exclusion of interest on public purpose state and local bonds	$30,440
	Build America Bonds	$1,850[i]
Total – bond tax expenditures that may support community development		$32,290

Source: GAO analysis of Treasury and Joint Committee on Taxation (JCT) information.

[a]Total costs include revenue losses and outlays estimated by Treasury unless otherwise specified.

[b]Includes both Recovery Zone Economic Development Bonds and Recovery Zone Facility Bonds.

[c]Total includes $60 million in outlays for fiscal year 2010.

[d]JCT indicated a revenue loss of less than $50 million.

[e]We did not sum total costs of disaster package tax expenditures listed by JCT to avoid double counting estimated revenue losses for Treasury tax expenditures we identified as promoting community development.

[f]The American Recovery and Reinvestment Act (Recovery Act) established two funding programs that provide capital investments to LIHTC projects: (1) the Tax Credit Assistance Program (TCAP) administered by HUD and (2) the Grants to States for Low-Income Housing Projects in Lieu of Low-Income Housing Credits Program under Section 1602 of the Recovery Act (Section 1602 Program) administered by Treasury. The administration of the TCAP and Section 1602 programs is entirely separate from the administration of the LIHTC program. For fiscal year 2010, HUD outlayed about $1.05 billion of TCAP funds and Treasury had outlayed about $1.9 billion of Section 1602 Program funds.

[g]Total includes $190 million in revenue losses, and $10 million in outlays for fiscal year 2010.

[h]While these bond tax expenditures may support community development, community development activities account for only a portion of the bond provisions' costs.

[i]Total includes $1,850 million in outlays for fiscal year 2010.

Appendix IV: Community Development Tax Expenditures by Description, and Targeted Geographies and Populations

Number	Tax expenditure	Description	Targeted geographies and populations
Tax expenditures primarily promoting community development			
1.	Empowerment Zones and Renewal Communities (EZ/RC)	Businesses in designated Empowerment Zones (EZ) or Renewal Communities (RC) are eligible to claim various tax incentives, listed below.[a] These incentives may help reduce unemployment, generate economic growth, and stimulate community development and business activity.	30 urban EZs, 10 rural EZs, 28 urban RCs and 12 rural RCs located throughout the United States. These areas consist of Census tracts that are economically depressed and meet statutory or regulatory requirements (based on 1990 Census data) for (1) poverty level, (2) overall unemployment, (3) total population, and (4) maximum required area of EZs or RCs. Additionally, the boundaries of RCs were expanded based on 2000 Census data. The eligibility requirements differed by round, by program, and between urban and rural nominees; for example, round I urban EZs (selected in 1993) were selected using 6 indicators of general distress, including incidence of crime and narcotics use and amount of abandoned housing, while urban and rural ECs (selected in 2000) were selected using 17 indicators, including number of persons on welfare and high school dropout rates.
	• Employment credit (EZ/RC)	Businesses may claim an annual tax credit of up to $3,000 or $1,500 for each employee living and working for the employer in an EZ or RC area, respectively.	Businesses in EZs and RCs, and employees living and working for the employer in EZs or RCs.
	• Work Opportunity Tax Credit (EZ/RC)	Businesses may claim a tax credit of up to $2,400 for each new employee age 18 to 39 living in an EZ/RC, or up to $1,200 for a youth summer hire ages 16 or 17 living in an EZ or RC.	Businesses in EZs and RCs, and employees living and working for the employer in EZs or RCs aged 18-39, or youth summer hires ages 16 or 17 living in an EZ or RC.
	• Commercial Revitalization Deduction (RC)	Businesses may claim an accelerated method of depreciation to recover certain business costs of new or substantially rehabilitated commercial buildings located in an RC; states may allocate up to $12 million annually per RC for the provision.	New construction and rehabilitation projects in RCs.
	• Increased Section 179 deduction (EZ/RC)	Businesses may claim an increased deduction of up to the smaller of $35,000 or the cost of eligible property purchases (including equipment and machinery) for businesses in an EZ/RC.	Businesses incurring costs for tangible personal property, such as equipment and machinery, for use in EZs or RCs.

Number	Tax expenditure	Description	Targeted geographies and populations
	• Facility Bonds (EZ)	State and local governments can issue tax-exempt bonds to provide loans to qualified businesses to finance construction costs in EZs. State and local government entities can issue up to $60 million for each rural EZ, $130 million for each urban EZ with a population of less than 100,000, and $230 million for each urban EZ with a population greater than or equal to 100,000. These bonds are not subject to state volume caps.	Large business projects tied to the employment of residents in EZs.
	• Rollover of capital gains (EZ)	Owners of businesses located in EZs may be able to postpone part or all of the gain from the sale of a qualified EZ asset that they hold for more than 1 year.	Businesses located in EZs.
	• Increased exclusion of capital gains (EZ)	Taxpayers can exclude 60 percent of their gain from the sale of small business stock in a corporation that qualifies as an enterprise zone business.	Enterprise zone businesses located in EZs.
	• Exclusion of capital gains (RC)	Owners of businesses located in RCs can exclude qualified capital gains from the sale or exchange of a qualified community asset held more than 5 years.	Businesses located in RCs.
2.	New Markets Tax Credit (NMTC)	Investors are eligible to claim a tax credit for investing in certified Community Development Entities (CDE) for 39 percent of the investment over 7 years. CDEs, in turn, invest in qualified low-income community investments such as mixed-use facilities, housing developments, and community facilities, which may contribute to employment in low-income communities.	Low-income communities defined as Census tracts (1) in which the poverty rate is at least 20 percent, or (2) outside a metropolitan area in which the median family income does not exceed 80 percent of median statewide family income or within a metropolitan area in which the median family income does not exceed 80 percent of the greater statewide or metropolitan area median family income. Low-income communities also include certain areas not within Census tracts, tracts with low population, and Census tracts with high-migration rural counties.

Number	Tax expenditure	Description	Targeted geographies and populations
3.	Recovery Zone bonds	State and local governments issuing Recovery Zone Economic Development Bonds (RZEDB) allow investors to claim a tax credit (equal to 45 percent of the interest rate established between the buyer and the issuer of the bond). States and localities also had the option of receiving a direct payment from the U.S. Treasury of equal value to the tax credit. Bond proceeds were to be used to fund (1) capital expenditures paid or incurred with respect to property located in the designated recovery zone (e.g., Empowerment Zones or Renewal Communities); (2) expenditures for public infrastructure and construction of public facilities; and (3) expenditures for job training and educational programs. Individuals and corporations can exclude Recovery Zone Facility Bond (RZFB) interest income from their taxable income. Bond proceeds are used by state and local governments to finance projects pertaining to any trade or business, aside from exceptions listed below. More specifically, RZFBs may be issued for any depreciable property that (1) was constructed, reconstructed, renovated, or acquired after the date of designation of a "recovery zone;" (2) the original use of which occurs in the recovery zone; and (3) substantially all of the use of the property is in the active conduct of a "qualified business," which is defined to include any trade or business except for residential rental facilities or other specifically listed projects under Internal Revenue Code 144(c)(6)(B), including golf courses, massage parlors, and gambling facilities.	RZEDBs and RZFBs target any area designated "recovery zones", including (1) areas having significant poverty, unemployment, rate of home foreclosures, or general distress; (2) areas that are economically distressed by reason of the closure or realignment of a military installation pursuant to the Defense Base Closure and Realignment Act of 1990; or is (3) any area for which an Empowerment Zone or Renewal Community was in effect as of February 17, 2009.
4.	Tribal Economic Development Bonds	Purchasers of Tribal Economic Development Bonds, a temporary category of tax-exempt bonds, could exclude that interest income from their taxable income.. Indian tribal governments were allowed greater flexibility to use the bonds to finance economic development projects, which in turn were to promote development on Indian reservations. Previously, Indian tribal governments could only issue tax-exempt bonds for essential government services.[b]	Indian reservations.

Number	Tax expenditure	Description	Targeted geographies and populations
5.	Indian employment credit	Businesses on Indian reservations are eligible to claim a tax credit for employing Indian tribal members and their spouses. The credit is for 20 percent of the first $20,000 in wages and health benefits paid to tribal members and spouses. This credit is intended to provide businesses with an incentive to hire certain individuals living on or near an Indian reservation.	Businesses on Indian reservations, and Indian tribal members and spouses.
Tax expenditures supporting community development and other federal mission areas			
6.	Low-Income Housing Tax Credit (LIHTC)	State housing finance agencies (HFA) award the tax credits to owners of qualified rental properties who reserve all or a portion of their units for occupancy for low-income tenants. Once awarded LIHTCs, project owners typically attempt to obtain funding for their projects by attracting third-party investors that contribute equity to the projects. These investors can then claim the tax credits. This arrangement of providing LIHTCs in return for an equity investment is generally referred to as “selling” the tax credits. The credit is claimed over a 10-year period, but a project must comply with LIHTC requirements for 15 years. A 9 percent tax credit—intended to subsidize 70 percent of the qualified basis in present value terms—is available for the costs for new construction or substantial rehabilitation projects not otherwise subsidized by the federal government. An approximately 4 percent tax credit—intended to subsidize about 30 percent of the qualified basis in present value terms—is available for the acquisition costs for existing buildings.[c] The 4 percent credit is also used for housing financed with tax-exempt rental housing bonds. The low-income housing tax credit program is intended to stimulate the production of affordable rental housing nationwide for low-income households.	Households with income at or below 60 percent of an area’s median gross income (AMGI).[d] Qualified Census tracts and difficult development areas are eligible for additional credits. In a qualified Census tract, 50 percent or more of the households have incomes of less than 60 percent of the area’s median income. In a difficult development area, construction, land, and utility costs are high relative to the area’s median income.

Number	Tax expenditure	Description	Targeted geographies and populations
7.	20 percent credit for rehabilitation of historic structures	Building owners and private investors may qualify to claim a 20 percent tax credit for costs to substantially rehabilitate buildings that are on the National Register of Historic Places or are otherwise certified as historic by the National Park Service (NPS). To be eligible for the credit, buildings must be used for offices; rental housing; or commercial, industrial, or agricultural enterprises. Building owners must hold the building for 5 years after completing the rehabilitation or pay back at least a portion of the credit. The credit is intended to attract private investment to the historic cores of cities and towns. The credit is also intended to generate jobs, enhance property values, and augment revenues for state and local governments through increased property, business and income taxes.	Certified historic buildings either listed individually in the National Register of Historic Places, or located in a registered historic district and certified by NPS as contributing to the historic significance of that district.
8.	10 percent credit for rehabilitation of structures (other than historic)	Individuals or corporations may claim a 10 percent tax credit for costs to substantially rehabilitate nonhistoric, nonresidential buildings placed into service before 1936. These structures must retain specified proportions of the buildings' external and internal walls and internal structural framework. To be eligible for the credit, buildings must be used for offices or commercial, industrial, or agricultural enterprises. Qualified spending must exceed the greater of $5,000 or the adjusted basis (cost less depreciation taken) of the building spent in any 24-month period. The credit is intended to attract private investment to the historic cores of cities and towns. The credit is also intended to generate jobs, enhance property values, and augment revenues for state and local governments through increased property, business and income taxes.	Nonresidential buildings placed into service before 1936; especially those located in older neighborhoods and central cities.
9.	Exclusion of gain or loss on sale or exchange of certain brownfield sites	Tax-exempt organizations may exclude gains or losses from the unrelated business income tax when they acquire and sell brownfield properties on which there has been an actual or threatened release of certain hazardous substances. This exclusion reduces the total cost of remediating environmentally damaged property and may attract the capital and enterprises needed to rebuild and redevelop polluted sites.	Environmentally contaminated sites identified as brownfields held for use in a trade or business on which there has been an actual or threatened release or disposal of certain hazardous substances. The exclusion does not target specific geographies or populations.

Number	Tax expenditure	Description	Targeted geographies and populations
10.	Expensing of environmental remediation costs	Firms may deduct expenses related to controlling or abating hazardous substances in a qualified brownfield property. This deduction subsidizes environmental cleanup and may help develop and revitalize urban and rural areas depressed from environmental contamination.	Environmentally contaminated sites identified as brownfields held for use in a trade or business on which there has been an actual or threatened release or disposal of certain hazardous substances. The deduction does not target specific geographies or populations.
11.	Exclusion of interest on rental housing bonds	Individuals and corporations can exclude private activity bond interest income from their taxable income. Bond proceeds are used by state and local governments to finance the construction of multifamily residential rental housing units for low- and moderate-income families. Low-income housing construction partly financed with the tax-exempt bonds may be used with the 4 percent low-income housing tax credit.	Households with incomes at or below 60 percent of an area’s median gross income (AMGI).
12.	Exclusion of interest for airport, dock, and similar bonds	Individuals and corporations can exclude private activity bond interest income from their taxable income. Bond proceeds are used by state and local governments to finance the construction of government-owned airports, docks, and wharves; mass commuting facilities such as bus depots and subway stations; and high-speed rail facilities and government-owned sport and convention facilities.	Infrastructure such as airports, docks, wharves, mass commuting facilities, and intercity rail facilities. The bond provision does not target specific geographies or populations.
13.	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	Individuals and corporations can exclude private activity bond interest income from their taxable income. Bond proceeds are used by state and local governments to finance the construction of water, sewage, and hazardous waste facilities.	Infrastructure such as water treatment plants, sewer systems and hazardous waste facilities; the bond provision does not target specific geographies or populations.

Number	Tax expenditure	Description	Targeted geographies and populations
14.	Credit for holders of qualified zone academy bonds (QZAB)	Banks, insurance companies, and other lending corporations that purchase qualified zone academy bonds are eligible to claim a tax credit equal to the dollar value of their bonds multiplied by a Treasury-set credit rate. Or, issuers had the option for qualified zone academies to receive a direct payment from the Treasury of equal value to the tax credit. School districts with qualified zone academies issue the bonds and use at least 95 percent of the bond proceeds to renovate facilities, provide equipment, develop course materials, or train personnel in such academies. Business or nonprofit partners must also provide at least a 10 percent match of QZAB funds, either in cash or in-kind donations, to qualified zone academies. The bond program helps school districts reduce the burden of financing school renovations and repairs.	Public schools below the college level that (1) are located in an Empowerment Zone, Enterprise Community or Renewal Community, or (2) have at least 35 percent of their student body eligible for free or reduced-cost lunches.
15.	Exclusion of interest on public purpose state and local bonds	Individuals and corporations can exclude governmental bond interest income from their taxable income. State and local governments generally use bond proceeds to build capital facilities such as highways, schools, and government buildings.	Capital facilities owned and operated by governmental entities that serve the public interest. The bond provision does not target specific geographies or populations.
16.	Build America Bonds (BAB)	Individuals and corporations could claim a tax credit equal to 35 percent of the interest rate established between the buyer and the issuer of the bond. State and local governments issuing BABs also had the option of receiving a direct payment from the Treasury of equal value to the tax credit. Bond proceeds were intended to be used for stimulating development of public infrastructure in communities, as well as to aid state and local governments. If issuers choose to receive a direct payment, then they must use bond proceeds for capital expenditures.	No specific geographies or populations are targeted.

Number	Tax expenditure	Description	Targeted geographies and populations
Disaster relief and recovery tax expenditures			
17.	New York Liberty Zone	Individuals and corporations affected by the September 11, 2001, terrorist attacks were eligible for seven tax provisions. These provisions included tax-exempt bonds targeted toward reconstruction and renovation; a special depreciation allowance for certain property that was damaged or destroyed; and a tax credit for businesses to hire and retain employees in the New York Liberty Zone.[e]	Areas of Lower Manhattan affected by terrorist attacks occurring on September 11, 2001.
18.	Katrina Emergency Act	Individuals and corporations affected by Hurricane Katrina, which struck in August 2005, were eligible to claim 19 tax provisions for relief and recovery. These provisions included exemptions for housing displaced individuals; employee retention tax credits for affected businesses; and suspensions on limitations for corporate charitable contributions towards hurricane relief efforts.[e]	Hurricane Katrina disaster area (consisting of the states of Alabama, Florida, Louisiana, Mississippi), including core disaster areas determined by the President to warrant individual or individual and public assistance from the federal government following Hurricane Katrina in August 2005.
19.	Gulf Opportunity Zone (GO Zone)	Individuals and corporations affected by hurricanes Katrina, Rita, and Wilma, which struck between August-October 2005, were eligible to claim 33 GO Zone tax provisions. These provisions include tax-exempt bond financing, expensing for certain clean-up and demolition costs, and additional allocations of the New Markets Tax Credit for investments that served the GO Zone.[e]	Counties and parishes in Alabama, Florida, Louisiana, Mississippi and Texas that warranted additional, long-term federal assistance following Hurricanes Katrina, Rita and Wilma in 2005 were designated as Katrina, Rita and/or Wilma GO Zones.
20.	Kansas disaster relief	Individuals and corporations in the Kansas disaster zone affected by severe storms and tornadoes beginning on May 4, 2007 could have claimed 13 tax provisions for relief and recovery. These provisions included suspensions of limitations on claiming personal casualty losses, employee retention tax credits for affected businesses, and expensing for certain clean-up and demolition costs.[e]	Twenty-four counties in Kansas affected by storms and tornadoes that began on May 4, 2007.

Number	Tax expenditure	Description	Targeted geographies and populations
21.	Midwest disaster relief	Individuals and corporations affected by severe storms, tornadoes or flooding in 10 states from May 20-July 31, 2008 were eligible for a package of 26 tax benefits, including tax-exempt bond financing, increased rehabilitation tax credits for damaged or destroyed structures, and suspensions of limitations on claiming personal casualty losses.[e]	Selected counties in 10 states affected by tornadoes, severe storms and flooding occurring from May 20-July 31, 2008.
22.	National disaster relief	Individuals and corporations situated in any federally declared disaster area during 2008 and 2009 were able to claim eight disaster relief and recovery tax provisions, including deductions for abatement or control of hazardous substances released on account of disasters, a 5-year carryback period for net operating losses from qualified disaster losses, and a special depreciation allowance for qualified disaster property.[e]	Individuals and businesses located in any geography declared a disaster area in the United States during tax years 2008 and 2009.
23.	Three-year carry back of small businesses' and farmers' casualty losses attributable to presidentially declared disasters	Qualified small or farming businesses affected by disasters in federally declared disaster areas are eligible to claim a net operating loss for up to 3 years after the loss was incurred, instead of the usual 2 years generally permitted. This credit may allow small and farming businesses in communities declared disaster areas to recoup a portion of their losses following a disaster.	Qualified small businesses and farming businesses located in any federally declared disaster area. Qualified small businesses are sole proprietorships or partnerships with average annual gross receipts (reduced by returns and allowances) of $5 million or less during the 3-year period ending with the tax year of the net operating loss.

Sources: GAO analysis of CRS, Environmental Protection Agency (EPA), JCT, NPS and OMB documentation.

[a]EZ and RC tax benefits also included tax credits for holders of Qualified Zone Academy Bonds (QZAB); see listing for QZAB tax expenditure.

[b]For more information on the bond financing by Indian tribal governments, see GAO, *Federal Tax Policy: Information on Selected Capital Facilities Related to the Essential Governmental Function Test*, GAO-06-1082 (Washington, D.C.: Sept.13, 2006) and U.S. Department of the Treasury, *Report and Recommendations to Congress reqarding Tribal Economic Development Bond provision under Section 7871 of the Internal Revenue Code* (Washington, D.C.: Dec. 19, 2011).

[c]For new buildings that are not federally subsidized and placed in service after July 30, 2008, and before December 31, 2013, the present value factor (applicable percentage) is no less than 9%. Otherwise, the applicable percentage is based on federal mid-term and long-term interest rates and fluctuates on a monthly basis.

[d]A taxpayer may elect to provide housing for households with income at or below 50 percent of AMGI.

[e]In addition to the tax provisions highlighted here, appendix VI lists all tax provisions and special rules available under each disaster tax package.

Appendix V: Community Development Tax Expenditures by Volume Caps, Other Allocation Limits, and Administration

Number	Tax expenditure	Volume cap or other allocation limits?	Involves administration by a federal agency outside IRS?	Involves administration by nonfederal entity?
Tax expenditures primarily promoting community development				
1.	Empowerment Zones and Renewal Communities (EZ/RC)	Varied. Five EZ and four RC tax incentives did not have any volume caps or allocation limits.[a]	Yes; HUD oversaw EZ programs in urban areas, and the USDA oversaw EZ programs in rural areas. HUD is responsible for outreach efforts and serves as a promoter for EZs and RCs. HUD and IRS established a partnership regarding the EZ/RC tax incentives, where both HUD and IRS provide representation at workshops and conferences.	Yes; state and local governments nominate communities for EZ and RC designation. Nominated EZ communities had to submit a strategic plan showing how they would meet key program principles, while nominated RCs had to submit a written “course of action” with commitments to carry out specific legislatively mandated activities.
	• RC Commercial Revitalization Deduction (CRD)	Limit of up to an annual total of $12 million per RC.	No; IRS has sole federal responsibility for the administration of the CRD program. HUD collected data from local administrators used for commercial projects in RCs.	Yes; state governments allocate CRD authority to eligible businesses engaged in commercial projects within RCs.
	• EZ Facility Bonds	Limits on issuing EZ facility bond volume were up to $60 million for each rural EZ, up to $130 million for each urban EZ with a population of less than 100,000, and $230 million for each urban EZ with a population greater than or equal to 100,000.	No; IRS has sole federal responsibility for the administration of EZ facility bond program. HUD collected information from local administrators of EZs on the use of facility bonds used for construction projects in EZs.	Yes; state and local governments issue EZ facility bonds to finance construction costs.

Number	Tax expenditure	Volume cap or other allocation limits?	Involves administration by a federal agency outside IRS?	Involves administration by nonfederal entity?
2.	New Markets Tax Credit (NMTC)	Yes; the maximum amount of annual investment eligible for NMTCs was $3.5 billion each year in calendar years 2010 and 2011.	Yes; the Treasury Community Development Financial Institutions (CDFI) Fund certifies organizations as community development entities (CDE), CDFI Fund also provides allocations of NMTCs to CDEs through a competitive process. The CDFI Fund is responsible for monitoring CDEs to ensure that CDEs are compliant with their allocation agreements through the New Markets Compliance Monitoring System and, on a more limited basis, by making site visits to selected CDEs. The CDFI Fund also provides IRS with access to CDFI data for monitoring CDEs' compliance with NMTC laws and regulations.	Yes; once a CDE receives an allocation of tax credits, the CDE can offer the tax credits to investors, who in turn acquire stock or a capital interest in the CDE. The investor can gain a potential return for a "qualified equity investment" in the CDE. In return for providing the tax credit to the investor, the CDE receives proceeds from the offer and must invest "substantially all" of such proceeds into qualified low-income community investments.
3.	Recovery Zone bonds	Yes; the Recovery Zone Economic Development Bond (RZEDB) and Recovery Zone Facility Bond (RZFB) programs had national volume caps of $10 billion and $15 billion, respectively.[b] These volume caps were allocated among the states and counties and large municipalities within the states based on relative declines in employment in 2008.	Yes; Treasury determined the amount of RZEDB and RZFB volume cap allocations received by each state and the District of Columbia based on declines in employment levels for each state and the District during 2008 relative to declines in national employment levels during the same period.	Yes; each state was responsible for allocating shares of RZEDB and RZFB volume caps to counties and large municipalities based on declines in employment levels for such areas during 2008 relative to declines in employment levels for all counties and municipalities in such states during the same period. State and local governments issued RZEDBs, and had the option of allowing investors to claim a tax credit for the bonds. States and localities also had the option of receiving a direct payment from the Treasury of equal value to the tax credit.

Number	Tax expenditure	Volume cap or other allocation limits?	Involves administration by a federal agency outside IRS?	Involves administration by nonfederal entity?
4.	Tribal Economic Development Bonds	Yes; the bond program had a $2 billion national volume cap.[c]	Yes; Treasury allocated bond capacity to Indian tribal governments in consultation with the Secretary of Interior, and the Department of Interior (Interior) maintains updated lists of Indian tribal entities that are eligible to apply for allocations of bond volume. Interior may also issue letters to Indian tribal entities indicating federal recognition of such entities in order to demonstrate eligibility for the bond program.	Yes; Indian tribal governments applied for Tribal Economic Development Bonds, issued the bonds, and used proceeds from bond sales to finance economic development projects or nonessential governmental activities. Indian tribal governments had the option of allowing investors to claim a tax credit for the bonds. Indian tribal governments also had the option of receiving a direct payment from the Treasury of equal value to the tax credit.
5.	Indian employment credit	No	No	No
Tax expenditures supporting community development and other federal mission areas				
6.	Low-Income Housing Tax Credit (LIHTC)	Yes; in 2010, the allocation limit was the greater of $2.10 per-capita or $2.43 million for each state, U.S. territory, and the District of Columbia. The per capita amount is subject to cost of living adjustments.	No; the IRS has sole federal responsibility for the administration of LIHTC program. However, the program is closely coordinated with HUD housing programs for the computation of the area median gross income (AMGI) used to determine household eligibility and maximum rents, as well as the definition of income. he IRS also uses HUD's Uniform Physical Condition Standards to determine whether the low-income housing is suitable for occupancy.[d] HUD also maintains a LIHTC database with information on the project address, number of units and low-income units, number of bedrooms, year the credit was allocated, year the project was placed in service, whether the project was new construction or rehabilitation, type of credit provided, and other sources of project financing.	Yes; state housing finance agencies (HFA) award LIHTCs to owners of qualified low-income housing projects based on each state's qualified allocation plan, which generally establishes a state's selection criteria for how its LIHTCs will be awarded. Additionally, state HFAs monitor LIHTC properties for compliance with Internal Revenue Code requirements, such as rent ceilings and income limits for tenants, and report noncompliance to the IRS.[e]

Number	Tax expenditure	Volume cap or other allocation limits?	Involves administration by a federal agency outside IRS?	Involves administration by nonfederal entity?
7.	20 percent credit for preservation of historic structures	No	Yes; the Secretary of Interior sets Standards of Rehabilitation for claiming the tax credit. Within Interior, NPS maintains a National Register of Historic Places; approves applications for rehabilitation projects proposing use of the 20 percent rehabilitation tax credit; and certifies whether completed projects meet the Secretary's standards and are eligible for the tax credit. NPS may inspect a rehabilitated property at any time during the five-year period following certification of rehabilitation for claiming the 20 percent preservation tax credit, and NPS may revoke certification if work was not done according to standards set by the agency. NPS also notifies the IRS of such revocations or dispositions so the tax credit may be recaptured.	Yes; state historic preservation offices (SHPO) review applications and forward recommendations for historic designation of structures to NPS, provide program information and technical assistance to applicants, and conduct site visits. SHPOs may also inspect a rehabilitated property at any time during a five-year period following completion of a rehabilitation project using the tax credit.
8.	10 percent credit for rehabilitation of structures (other than historic)	No	Yes; NPS determines whether buildings in historic districts do not contribute to such districts and, consequently, are not deemed to be historic structures. Such decertification is required before owners of such structures can claim for the 10 percent tax credit.	Yes; SHPOs review decertification applications and forward recommendations to NPS, provide program information and technical assistance to applicants.
9.	Exclusion of gain or loss on sale or exchange of certain brownfield sites	No	Yes; EPA maintains a National Priority List of properties; such listed properties are ineligible for the tax incentive.	Yes; state environmental agencies certify brownfield properties on which there has been an actual or threatened release or disposal of certain hazardous substances. Following certification, taxpayers may incur eligible remediation expenditures and claim the tax provision.

Number	Tax expenditure	Volume cap or other allocation limits?	Involves administration by a federal agency outside IRS?	Involves administration by nonfederal entity?
10.	Expensing of environmental remediation costs	No	Yes; EPA maintains a National Priority List of properties; such listed properties are ineligible for the tax incentive.	Yes; state environmental agencies certify brownfield properties on which there has been an actual or threatened release or disposal of certain hazardous substances. Following certification, site owners may claim the tax deduction, including for some expenditures incurred from prior tax years.
11.	Exclusion of interest on rental housing bonds	Yes, the bond provision is subject to the private activity bond annual volume cap for each state.[f]	No	Yes; state and local governments, typically housing finance agencies, may issue bonds and use proceeds from bond sales to finance the construction of multifamily residential rental housing units for low- and moderate-income families.
12.	Exclusion of interest for airport, dock, and similar bonds	Varied; bond for the construction of mass commuting facilities, and 25 percent of bond issues for privately-owned intercity rail facilities, are included in the private activity bond annual state volume cap (government-owned facilities are exempted).[f] Bonds for airports, docks and wharves are not subject to the private-activity bond volume cap or other restrictions.	No	Yes; state and local governments may issue bonds, and use proceeds from bond sales to finance construction of airports, docks, wharves, mass commuting facilities and intercity rail facilities.
13.	Exclusion of interest on bonds for water, sewage, and hazardous waste facilities	Yes, the bond provisions are subject to the private activity bond annual volume cap for each state.[f]	No	Yes; state and local governments may issue bonds, and then use proceeds from bond sales to finance capital improvements for water, sewer and hazardous waste facilities.

Number	Tax expenditure	Volume cap or other allocation limits?	Involves administration by a federal agency outside IRS?	Involves administration by nonfederal entity?
14.	Credit for holders of qualified zone academy bonds (QZAB)	Yes; the bond provision has national volume caps of $1.4 billion in 2010, and $400 million in 2011.	Yes; Treasury determines the credit rate of QZABs and allocates shares of QZAB volume to state education agencies on the basis of the states' respective populations of individuals below the poverty line (as defined by OMB).	Yes; state education agencies determine the share of QZAB volume allocated to qualified zone academies, and issues QZABs following approval by local education agencies. Local education agencies issue QZABs after applying for and obtaining permission from states. Business or nonprofit partners provide at least a 10 percent match of QZAB funds, either in cash or in-kind donations, to qualified zone academies.
15.	Exclusion of interest on public purpose state and local bonds	No	No	Yes; state, and local governments may issue bonds, and then use proceeds from bond sales to finance eligible projects—primarily public infrastructure projects such as highways, schools, and government buildings.[9]
16.	Build America Bonds (BAB)	No	No	Yes; state and local governments issued the bonds, and then use proceeds from bond sales to finance expenditures typically funded by tax-exempt governmental bonds (excluding private activity bonds), such as for schools, transportation infrastructure, and water and sewer systems. State and local governments had the option of allowing investors to claim a tax credit for the bonds. States and localities also had the option of receiving a direct payment from the Treasury of equal value to the tax credit.

Number	Tax expenditure	Volume cap or other allocation limits?	Involves administration by a federal agency outside IRS?	Involves administration by nonfederal entity?
Disaster relief and recovery tax expenditures				
17.	New York Liberty Zone	Varied.[h] Authority to designate up to $8 billion in tax-exempt private activity bonds (New York Liberty bonds) and $9 billion in advance refunding bonds.	No	Yes; the Governor of the State of New York and the Mayor of New York City were allowed to issue tax-exempt New York Liberty bonds, and use proceeds to finance reconstruction and renovation projects within the New York Liberty Zone. The Governor and Mayor were allowed to issue advance refunding bonds to pay principal, interest, or redemption price on certain prior issues of bonds issued for facilities located in New York City (and certain water facilities located outside of New York City).
18.	Katrina Emergency Act	No	No	No
19.	Gulf Opportunity Zone (GO Zone)	Varied.[h] Multiple provisions within the tax expenditure package have volume caps or other revenue loss limitations.	Varied; multiple provisions within the tax expenditure package involved administration by federal agencies besides IRS.	Varied; multiple provisions within the tax expenditure package involved administration by state and local governments and other entities.
	Advance refunding of state and local tax-exempt bonds	The maximum amount of advance refunding for certain governmental and qualified 501(c)(3) bonds that may have been issued was capped at $4.5 billion in the case of Louisiana, $2.25 billion in the case of Mississippi, and $1.125 billion in the case of Alabama.	No	State and local governments in the GO Zone—Alabama, Louisiana, and Mississippi—issued advance refunding bonds.
	Tax credit bonds	Gulf Tax Credit Bonds had a volume cap of $200 million for Louisiana, $100 million for Mississippi, and $50 million for Alabama.	Yes; Treasury determines the credit rate of Gulf Tax Credit Bonds.	State and local governments in the GO Zone—Alabama, Louisiana, and Mississippi—issued Gulf Tax Credit Bonds to help pay principal, interest, and premiums on outstanding state and local government bonds.

Number	Tax expenditure	Volume cap or other allocation limits?	Involves administration by a federal agency outside IRS?	Involves administration by nonfederal entity?
	Tax-exempt bond financing beyond state volume caps	The maximum aggregate face amount of GO Zone Bonds that may have been issued in Alabama, Louisiana or Mississippi was capped at $2,500 multiplied by the population of the respective state within the GO Zone; no other states were eligible for tax-exempt bond financing.	No	State and local governments in the GO Zone—Alabama, Louisiana, and Mississippi—issued bonds, though state governments approved projects for bond financing.
	Increased credit cap and other modified provisions for use of the Low-Income Housing Tax Credit (LIHTC)	A special allocation of the LIHTC was issued for each of three years (2006, 2007 and 2008) to each of the States within the GO Zone. Each year’s special allocation was capped at $18.00 multiplied by the population of the respective state in the GO Zone. In addition, the otherwise applicable LIHTC ceiling amount was increased for Florida and Texas by $3,500,000 per State.	No	See above description of the LIHTC regarding the involvement of state housing finance agencies (HFA).
	New Markets Tax Credit (NMTC) - additional allocations for low-income community investments	An additional allocation of the New Markets Tax Credit (NMTC) in amounts equal to $300 million for 2005 and 2006, and $400 million for 2007, were to be allocated among qualified community development entities (CDE) to make qualified low-income community investments within the Gulf Opportunity Zone.	See above description of the NMTC regarding involvement of the Community Development Financial Institutions (CDFI) Fund.	See above description of the NMTC regarding the involvement of CDEs.
20.	Kansas disaster relief	No	No	No

Number	Tax expenditure	Volume cap or other allocation limits?	Involves administration by a federal agency outside IRS?	Involves administration by nonfederal entity?
21.	Midwest disaster relief	Varied.[h] Multiple provisions within the tax expenditure package have volume caps or other revenue loss limitations.	Varied; multiple provisions within the tax expenditure package involved administration by federal agencies besides IRS.	Varied; multiple provisions within the tax expenditure package involved administration by state and local governments.
	Tax credit bonds	The maximum amount of Midwestern Tax Credit Bonds that may have been issued was capped at: (1) $100 million for any state with an aggregate population located in all Midwest disaster areas within the state of at least 2,000,000; (2) $50 million for any state with an aggregate population located in all Midwest disaster areas within the state of at least 1,000,000 but less than 2,000,000; and (3) $0 for any other state.	Yes; Treasury determines the credit rate of Midwestern Tax Credit Bonds.	State governments in the Midwest disaster area issued Midwestern tax credit bonds to help pay principal, interest and premiums on outstanding state and local government bonds.
	Tax-exempt bond financing beyond state volume caps	The maximum aggregate face amount of Midwestern disaster zone bonds that may have been issued in any state in which a Midwestern disaster area was located, was capped at $1,000 multiplied by the population of the respective state within the Midwestern disaster zone; no other states were eligible for tax-exempt bond financing.	No	State and local governments in the Midwest disaster area issued bonds.

Number	Tax expenditure	Volume cap or other allocation limits?	Involves administration by a federal agency outside IRS?	Involves administration by nonfederal entity?
	Increased credit cap and other modified provisions for use of the Low-Income Housing Tax Credit (LIHTC)	A special allocation of the LIHTC was issued for each of three years (2008, 2009, and 2010) to any state in which a Midwest disaster area was located. Each year's special allocation was capped at $8.00 multiplied by the population of the respective state in a Midwest disaster area.	No	See above description of the LIHTC regarding the involvement of state housing finance agencies (HFA).
22.	National disaster relief	No	No	Yes; for the provision allowing expensing of environmental remediation costs from disasters, state environmental agencies certify brownfield properties on which there has been an actual or threatened release or disposal of certain hazardous substances as a result of a federally declared disaster.
23.	Three-year carry back of small businesses' and farmers' casualty losses attributable to presidentially declared disasters	No	No	No

Sources: GAO analysis of CRS, EPA, IRS, JCT, Office of the Comptroller of Currency (OCC), and OMB information.

[a]EZ/RC also included tax credits for holders of qualified zone academy bonds (QZAB); see listing for QZAB tax expenditure.

[b]State and local governments had the authority to issue RZEDBs and RZFBs from February 17, 2009 through December 31, 2010.

[c]All $2 billion in available Tribal Economic Development bond volume was to be allocated by February 28, 2010, but Treasury and IRS have extended deadlines in order to reallocate unused bond authority. According to Treasury, tribal bonds issued as of November 2011 represented less than 3 percent of the available authority.

[d]The American Recovery and Reinvestment Act (Recovery Act) established two temporary funding programs that provided capital investments LIHTC projects: (1) the Tax Credit Assistance Program (TCAP) administered by the Department of Housing and Urban Development (HUD) and (2) the Grants to States for Low-Income Housing Projects in Lieu of Low-Income Housing Credits Program under Section 1602 of the Recovery Act (Section 1602 Program) administered by the Department of the Treasury (Treasury). The administration of the TCAP and Section 1602 programs is entirely separate from the administration of the LIHTC program by IRS. HUD obligated Recovery Act Tax Credit Assistance Program (TCAP) funds to provide gap financing to State Housing Finance Agencies (HFA) for capital investment in LIHTC projects that were awarded tax credits in fiscal year 2007, 2008 or 2009, and was able to recapture such funds from any HFA whose projects do not comply with TCAP requirements. Under the Recovery Act Section 1602 program, whose funds were designed for use in lieu of LIHTCs, Treasury provided payments to HFAs in exchange for a portion of their 2009 ceiling (up to 100 percent of unused 2008 LIHTCs and 40 percent of their 2009 allocation) for grant funds at the rate of 85 cents for every tax credit dollar, and can recapture such funds from any HFA whose projects do not comply with Section 1602 requirements.

[e]For information on the activities of state HFAs in administering the Recovery Act TCAP and Section 1602 programs, see GAO, *Recovery Act: Opportunities to Improve Management and Strengthen Accountability over States' and Localities' Uses of Funds*, GAO-10-999 (Washington, D.C.: Sept. 20, 2010).

[f]In 2010, the private activity bond annual volume cap for each state was equal to the greater of $90 per-capita or about $273.8 million. The volume cap is tied to inflation by legislation and is adjusted annually.

[g]Tribal governments are authorized to issue tax-exempt bonds only if substantially all of the proceeds are used for essential governmental functions or certain manufacturing facilities.

[h]Appendix VI lists the specific tax provisions and special rules available from this package of disaster relief and recovery tax expenditures.

Appendix VI: Tax Provisions and Special Rules Available for Disaster Relief and Recovery in Specific Presidentially Declared Disaster Areas

		Tax packages supporting disaster relief and recovery						
Tax provision or special rule	Description	New York Liberty Zone[a]	Katrina Emergency Act[b]	Gulf Opportunity Zone[c]	Kansas disaster relief[d]	Midwest disaster relief[e]	National disaster relief[f]	Number of packages where provision is used
Bond provisions								
Bonds issued by state and local governments								
1. Advance refunding of state and local tax-exempt bonds	Legislation targeted towards the New York Liberty Zone and the Gulf Opportunity Zones (GO Zone) allowed an additional advance refunding to redeem certain prior tax-exempt bond issuances from state and local governments. The provision allowed state and local governments to refund, or refinance, bonds that are not redeemed within 90 days after the refunding bonds are issued.	X		X				2
2. Determination of income eligibility for residential rental project requirements to qualify for tax-exempt facility bond financing	Residential rental property may be financed with tax-exempt facility bonds issued by state and local governments, if the financed project is a “qualified residential rental project” with required ratios of residents with certain income limitations. Under the provision, the operator of a qualified residential rental project may rely on the representations of prospective tenants displaced by reason of certain disasters to determine whether such individual satisfies the income limitation for a qualified residential rental project.			X	X	X		3

Tax provision or special rule	Description	Tax packages supporting disaster relief and recovery						
		New York Liberty Zone[a]	Katrina Emergency Act[b]	Gulf Opportunity Zone[c]	Kansas disaster relief[d]	Midwest disaster relief[e]	National disaster relief[f]	Number of packages where provision is used
3. Special rules for mortgage revenue bonds	Mortgage revenue bonds are tax-exempt bonds issued by state and local governments to make mortgage loans to qualified mortgagors for the purchase, improvement, or rehabilitation of owner-occupied residences, and are typically required to exclusively finance mortgages for “first-time homebuyers.” Qualified mortgage revenue bonds, may be issued in targeted disaster areas without a first-time homebuyer financing requirement. Additionally, the permitted amount of qualified home-improvement loans increases from $15,000 to $150,000 for residences in a disaster zone.		X	X		X	X	4
4. Tax credit bonds	State and local governments in GO Zones and the Midwest disaster area may have issued tax credit bonds in areas affected by certain disasters. 95 percent of these bonds must be used to (1) pay principal, interest, or premium on outstanding bonds (other than private activity bonds) issued by state and local governments, or (2) make a loan to any political subdivision (e.g., local government) of such state to pay principal, interest, or premium on bonds (other than private activity bonds) issued by such political subdivision. These bonds differed from tax-exempt bonds in that rather than receiving tax-exempt interest payments, bondholders were entitled to a federal tax credit equal to a certain percentage of their investment.			X		X		2

		Tax packages supporting disaster relief and recovery						
Tax provision or special rule	Description	New York Liberty Zone[a]	Katrina Emergency Act[b]	Gulf Opportunity Zone[c]	Kansas disaster relief[d]	Midwest disaster relief[e]	National disaster relief[f]	Number of packages where provision is used
5. Tax-exempt bond financing beyond state volume caps	In certain disaster areas, tax-exempt bonds for qualified private activities may have been issued and were not restricted by aggregate annual state private activity bond limits. These bonds allow state and local governments to finance the construction or rehabilitation of properties following a disaster.	X		X		X		3
Bonds issued by Treasury								
6. Gulf Coast Recovery Bonds	Treasury named Series I inflation-indexed savings bonds purchased through financial institutions as "Gulf Coast Recovery Bonds" from March 29-December 31, 2006, in order to encourage public support for recovery and rebuilding efforts in areas devastated by Hurricanes Katrina, Rita, and Wilma. Proceeds from the sale of the bonds were not specifically designated for hurricane relief and recovery efforts.			X				1
Credits								
7. Credit for employer-provided housing	The provision provided a temporary tax credit of 30 percent to qualified employers for the value of employer-provided lodging to qualified employees affected by certain disasters. The amount taken as a credit was not deductible by the employer.			X		X		2
8. Employee retention credit for employers	Certain disaster relief tax packages included a credit of 40 percent of the qualified wages (up to a maximum of $6,000 in qualified wages per employee) paid by an eligible employer that conducted business in a disaster zone and whose operations were rendered inoperable by the disaster.		X	X	X	X		4

Tax provision or special rule	Description	Tax packages supporting disaster relief and recovery						
		New York Liberty Zone[a]	Katrina Emergency Act[b]	Gulf Opportunity Zone[c]	Kansas disaster relief[d]	Midwest disaster relief[e]	National disaster relief[f]	Number of packages where provision is used
9. Expansion of Hope Scholarship Credit	For 2005, the Hope Scholarship Credit rate was 100 percent on the first $1,000 of qualified tuition and related expenses, and 50 percent on the next $1,000 of qualified tuition and related expenses. For 2005, the Hope credit was temporarily increased for students attending eligible educational institutions in the GO Zone to 100 percent of the first $2,000 in qualified tuition and related expenses and 50 percent of the next $2,000 of qualified tuition and related expenses, for a maximum credit of $3,000 per student. For 2006, this provision increased the tax credit again to 100 percent of the first $2,200 of qualified tuition and related expenses (instead of $1,100 under standard law in 2006), and 50 percent of the next $2,200 of qualified tuition and related expenses (instead of $1,100) for a maximum credit of $3,300 per student (instead of $1,650). For 2008 and 2009, the Hope scholarship credit was extended to students attending eligible educational institutions in the Midwestern disaster area, based on increased credit rates enacted in 2006.			X		X		2
10. Expansion of Lifetime Learning Credit	Individual taxpayers are typically allowed to claim a nonrefundable credit, the Lifetime Learning Credit, equal to 20 percent of qualified tuition and related expenses of up to $10,000 (resulting in a total credit of up to $2,000) incurred during the taxable year on behalf of the taxpayer, the taxpayer's spouse, or any dependents. The Lifetime Learning Credit rate was temporarily increased from 20 percent to 40 percent for students attending institutions in certain disaster areas.			X		X		2

		Tax packages supporting disaster relief and recovery						
Tax provision or special rule	**Description**	**New York Liberty Zone[a]**	**Katrina Emergency Act[b]**	**Gulf Opportunity Zone[c]**	**Kansas disaster relief[d]**	**Midwest disaster relief[e]**	**National disaster relief[f]**	**Number of packages where provision is used**
11. Increase in rehabilitation tax credits with respect to certain property	The provision increased from 20 to 26 percent, and from 10 to 13 percent, respectively, the preservation credits with respect to any certified historic structure or qualified rehabilitated building located in certain disaster areas, provided the qualified rehabilitation expenditures with respect to such buildings or structures were incurred during an established period of time following the disaster.			X		X		2
12. Increased credit cap and other modified provisions for use of the Low-Income Housing Tax Credit (LIHTC)	The LIHTC cap amount increased for affected states within the GO Zones and the Midwestern disaster area. Also, rules concerning implementation of the LIHTC were modified for the GO Zone; in the case of property placed in service from 2006-2008 in a nonmetropolitan area within the GO Zone, LIHTC income targeting rules are applied by using a national nonmetropolitan median gross income standard instead of the area median gross income standard typically applied to low-income housing projects.			X		X		2
13. New Markets Tax Credit (NMTC)—additional allocations for low-income community investments	The provision allowed an additional allocation of NMTCs in an amount equal to $300 million for 2005 and 2006, and $400 million for 2007, to be allocated among qualified community development entities to make qualified low-income community investments within the Katrina GO Zone.			X				1

		Tax packages supporting disaster relief and recovery						
Tax provision or special rule	Description	New York Liberty Zone[a]	Katrina Emergency Act[b]	Gulf Opportunity Zone[c]	Kansas disaster relief[d]	Midwest disaster relief[e]	National disaster relief[f]	Number of packages where provision is used
14. Special look-back rule for determining Earned Income Tax Credit and Refundable Child Credit	Individuals whose principle residence were in certain disaster areas or were otherwise displaced from their homes by disasters may have elected to calculate their Earned Income Tax Credit and Refundable Child Credit for the taxable year when the disaster occurred using their earned income from the prior taxable year.		X	X		X		3
15. Work Opportunity Tax Credit—expansion to certain disaster areas	Employers hiring and retaining individuals who worked in certain disaster areas were eligible to claim up to $2,400 in Work Opportunity Tax Credits per employee (or 40 percent of up to the first $6,000 of wages). Employees in other targeted categories for the tax credit (e.g., qualified veterans or families receiving food stamps) are typically required to provide certification from a designated local agency of their inclusion in such groups on or before they begin work, or their employer provides documentation to said agencies no later than 28 days after the employee begins work. However, employees who worked and/or lived in certain disaster areas do not require certification from such agencies for employers to qualify for the tax credit.	X	X					2

		Tax packages supporting disaster relief and recovery						
Tax provision or special rule	Description	New York Liberty Zone[a]	Katrina Emergency Act[b]	Gulf Opportunity Zone[c]	Kansas disaster relief[d]	Midwest disaster relief[e]	National disaster relief[f]	Number of packages where provision is used
Deductions								
Carryback of net operating losses (NOL)[g]								
16. Carryback of NOLs— special 5-year carryback for qualified disaster losses	Under present law, a net operating loss (NOL) is, generally, the amount by which a taxpayer's business deductions exceed its gross income. In general, an NOL may be carried back 2 years and carried over 20 years to offset taxable income in such years. NOLs offset taxable income in the order of the taxable years to which the NOL may be carried. This provision provided a special 5-year carryback period for NOLs to the extent of qualified disaster losses in any presidentially declared disaster area during 2008 and 2009.						X	1
17. Five-year NOL carryback for aggregate amount of certain deductions	Individuals and corporations affected by certain disasters may have carried back NOLs, for a period of 5 years, of the sum of the aggregate amount of deductions from such disasters, including deductions for qualified casualty losses; certain moving expenses; certain temporary housing expenses; depreciation deductions with respect to qualified property in disaster areas for the taxable year the property was placed into service; and certain repair expenses resulting from applicable disasters.			X	X	X		3
18. Five-year NOL carryback of certain timber losses	A NOL to a farming business may have been carried back for five years if such loss was attributable to any portion of qualified timber property which was located in the Katrina or Rita GO Zones.			X				1

		Tax packages supporting disaster relief and recovery						
Tax provision or special rule	**Description**	**New York Liberty Zone[a]**	**Katrina Emergency Act[b]**	**Gulf Opportunity Zone[c]**	**Kansas disaster relief[d]**	**Midwest disaster relief[e]**	**National disaster relief[f]**	**Number of packages where provision is used**
19. Five-year NOL carryback of public utility casualty losses	The provision provided an election for taxpayers who incurred casualty losses attributable to certain disasters with respect to public utility property located in applicable disaster zones. Under the election, such losses may be carried back 5 years immediately preceding the taxable year in which the loss occurred. If the application of this provision resulted in the creation or increase of a NOL for the year in which the casualty loss is taken into account, the NOL may be carried back or carried over as under present law applicable to NOLs for such year.			X	X			2
20. Special rule for NOLs from public utility casualty losses	The provision provided an election for taxpayers to treat any GO Zone public utility casualty loss caused by Hurricane Katrina as a specified liability loss to which the present-law 10-year carryback period applies. The amount of the casualty loss is reduced by the amount of any gain recognized by the taxpayer from involuntary conversions of public utility property (e.g. physical destruction of such property) located in the GO Zone caused by Hurricane Katrina. Taxpayers who elect to use this provision are not eligible to treat the loss as part of the 5-year net operating loss carryback provided under another provision of the GO Zone Act (see 5-year NOL carryback of public utility casualty losses mentioned above).			X				1

		Tax packages supporting disaster relief and recovery						
Tax provision or special rule	**Description**	**New York Liberty Zone[a]**	**Katrina Emergency Act[b]**	**Gulf Opportunity Zone[c]**	**Kansas disaster relief[d]**	**Midwest disaster relief[e]**	**National disaster relief[f]**	**Number of packages where provision is used**
Casualty loss tax provisions								
21. Suspension of certain limitations on personal casualty losses	The provision suspended two limitations on personal casualty or theft losses to the extent those losses arise in certain disaster areas and are attributable to such disasters. First, personal casualty or theft losses meeting the above requirements needed not exceed $100 per casualty or theft; present law at the time contained a required threshold of $100. Second, such losses were deductible without regard to whether aggregate net losses exceed 10 percent of a taxpayer's adjusted gross income, which was standard under present law at the time the disasters took place. The provision treats personal casualty or theft losses from the pertinent disaster as a deduction separate from other casualty losses.		X	X	X	X		4

Tax provision or special rule	Description	Tax packages supporting disaster relief and recovery: New York Liberty Zone[a]	Katrina Emergency Act[b]	Gulf Opportunity Zone[c]	Kansas disaster relief[d]	Midwest disaster relief[e]	National disaster relief[f]	Number of packages where provision is used
22. Casualty losses attributable to federally declared disasters	The provision removed one limitation on personal casualty or theft losses to the extent those losses arise in federally declared disaster areas during 2008 and 2009. More specifically, losses were deductible without regard to whether aggregate net losses exceed 10 percent of a taxpayer's adjusted gross income, which was standard under present law at the time the disasters took place. The provision treats personal casualty or theft losses from federally declared disasters as a deduction separate from other casualty losses. However, present law at the time contained a required threshold of $100 for meeting requirements to claim losses, and this provision increases the threshold to $500. These rules are in effect for all federally declared disaster areas in 2008 and 2009 aside from those areas declared "Midwestern disaster areas" from flooding, tornadoes, and storms in 2008. The portion of the provision increasing the limitation per casualty to $500 only applies to 2009.						X	1
Charitable contribution tax provisions								
23. Charitable deduction for contributions of book inventories	Under present law, a taxpayer's deduction for charitable contributions of inventory generally is limited to the taxpayer's basis (typically cost) in the inventory, or if less, the fair market value of the inventory. Under this provision, a C Corporation was eligible to claim an enhanced deduction for qualified book donations. An enhanced deduction is equal to the lesser of (1) basis plus one-half of the item's appreciation (basis plus one-half of fair market value in excess of basis) or (2) two times basis.		X					1

		Tax packages supporting disaster relief and recovery						
Tax provision or special rule	Description	New York Liberty Zone[a]	Katrina Emergency Act[b]	Gulf Opportunity Zone[c]	Kansas disaster relief[d]	Midwest disaster relief[e]	National disaster relief[f]	Number of packages where provision is used
24. Charitable deduction for contributions of food inventories	Under present law, a taxpayer's deduction for charitable contributions of inventory generally is limited to the taxpayer's basis (typically cost) in the inventory, or if less, the fair market value of the inventory. Under this provision, any taxpayer, whether or not a C corporation, engaged in a trade or business was eligible to claim an enhanced deduction for donations of food inventory. An enhanced deduction is equal to the lesser of (1) basis plus one-half of the item's appreciation (i.e., basis plus one-half of fair market value in excess of basis) or (2) two times basis. For taxpayers other than C corporations, the total deduction for donations of food inventory in a taxable year generally may not exceed 10 percent of the taxpayer's net income for such taxable year from which contributions of apparently wholesome food are made.		X					1
25. Increase in standard mileage rate for charitable use of vehicles	The provision allowed a taxpayer using a vehicle while donating services to charity for the provision of relief related to certain disasters to compute charitable mileage deduction using a rate equal to 70 percent of the business mileage rate in effect on the date of the contribution, rather than the charitable standard mileage rate generally in effect under law.		X			X		2
26. Temporary suspension of limits on charitable contributions	The provision allowed for qualified contributions up to the amount by which an individual's contribution base (adjusted gross income without regard to any NOL carryback) or corporation's taxable income exceeds the deduction for other charitable contributions. Contributions in excess of this amount are carried over to succeeding taxable years subject to limitations under law.		X	X		X		3

		Tax packages supporting disaster relief and recovery						
Tax provision or special rule	Description	New York Liberty Zone[a]	Katrina Emergency Act[b]	Gulf Opportunity Zone[c]	Kansas disaster relief[d]	Midwest disaster relief[e]	National disaster relief[f]	Number of packages where provision is used
Depreciation and expensing[g]								
27. Additional first-year depreciation for property	The provision allowed an additional first-year depreciation deduction equal to a percentage of the adjusted basis of qualified property; the percentage varies depending on the disaster area where the property is located, e.g., 30 percent for New York Liberty Zone, 50 percent for GO Zones, Kansas Disaster Zone, and other areas in the U.S. declared disaster areas under national disaster relief.	X		X	X		X	4
28. Expensing for certain demolition and clean-up costs	A taxpayer was permitted a deduction for 50 percent of qualified disaster clean-up costs, such as removal of debris or demolition of structures, paid or incurred for an established period of time following certain disasters.			X	X	X	X	4
29. Expensing of repair of business-related property	Under the provision, a taxpayer may have elected to treat any repair of business-related property affected by presidentially declared disasters, including repairs that are paid or incurred by the taxpayer, as a deduction for the taxable year in which paid or incurred.						X	1

		Tax packages supporting disaster relief and recovery						
Tax provision or special rule	Description	New York Liberty Zone[a]	Katrina Emergency Act[b]	Gulf Opportunity Zone[c]	Kansas disaster relief[d]	Midwest disaster relief[e]	National disaster relief[f]	Number of packages where provision is used
30. Extension of expensing for environmental remediation costs	Taxpayers may typically elect to deduct (or "expense") certain environmental remediation expenditures that would otherwise be chargeable to a capital account, in the year paid or incurred. The deduction applies for both regular and alternative minimum tax purposes. The expenditure must be incurred in connection with the abatement or control of hazardous substances at a qualified contaminated site. The provision was extended beyond present law for qualified contaminated sites located in the GO Zone and Midwestern disaster zones, as well as federally declared disaster areas in 2008 and 2009. The length of such extensions depended on the applicable disaster zone.			X		X	X	3
31. Five-year depreciation of qualified leasehold improvement property	Qualified improvements made on leasehold property in the New York Liberty Zone could have been depreciated over a 5-year period using the straight-line method of depreciation, instead of the 39-year period standard under present law. Qualified leasehold property improvements included improvements to nonresidential real property, such as additional walls and plumbing and electrical improvements made to an interior portion of a building.	X						1

		Tax packages supporting disaster relief and recovery						
Tax provision or special rule	Description	New York Liberty Zone[a]	Katrina Emergency Act[b]	Gulf Opportunity Zone[c]	Kansas disaster relief[d]	Midwest disaster relief[e]	National disaster relief[f]	Number of packages where provision is used
32. Increased Section 179 expensing	In lieu of depreciation, a taxpayer with a sufficiently small amount of annual investment may elect to expense qualified property placed in service for the taxable year under section 179 of the Internal Revenue Code. Taxpayers in certain disaster areas were eligible to increase the maximum dollar amount of Section 179 expensing for qualified property, which is generally defined as depreciable tangible personal property that is purchased for use in the active conduct of a trade or business. Taxpayers in the New York Liberty Zone could deduct an additional amount up to the lesser of $35,000 or the cost of the qualified Section 179 property put into service during the calendar year. Taxpayers in the GO Zone, Kansas Disaster Zone or disaster zones covered under "National Disaster Relief" could deduct an additional amount up to the lesser of $100,000 or the cost of the qualified Section 179 property put into service during the calendar year.	X		X	X		X	4
33. Increased expensing for reforestation expenditures of small timber producers	The provision doubled, for certain taxpayers, the present-law expensing limit of $10,000 for reforestation expenditures paid or incurred by such taxpayers for certain periods of time with respect to qualified timber property in the Katrina, Rita and Wilma GO Zones. For example, single taxpayers may have claimed $20,000 instead of $10,000 for eligible reforestation expenditures.			X				1

		Tax packages supporting disaster relief and recovery						
Tax provision or special rule	**Description**	**New York Liberty Zone[a]**	**Katrina Emergency Act[b]**	**Gulf Opportunity Zone[c]**	**Kansas disaster relief[d]**	**Midwest disaster relief[e]**	**National disaster relief[f]**	**Number of packages where provision is used**
34. Treasury authority to grant bonus depreciation placed-in-service date relief	The Internal Revenue Code allowed an additional first-year depreciation deduction equal to 30 or 50 percent of the adjusted basis of qualified property, including (1) property to which the modified accelerated cost recovery system applies with an applicable recovery period of 20 years or less, (2) water utility property, (3) certain computer software, or (4) qualified leasehold improvement property placed in service by December 31, 2005. Under this provision, the Secretary of Treasury had authority to further extend the placed-in-service date (beyond Dec. 31, 2005), on a case-by-case basis, for up to 1 year for certain property eligible for the December 31, 2005 placed-in-service date under present law. The authority extended only to property placed in service or manufactured in the Katrina, Rita or Wilma GO Zones. In addition, the authority extended only to circumstances in which the taxpayer was unable to meet the December 31, 2005 deadline as a result of Hurricanes Katrina, Rita, and/or Wilma.			X				1
Exemptions								
35. Additional exemption for housing displaced individuals	The provision provided an additional exemption of $500 for each displaced individual of a taxpayer affected by certain disasters. The taxpayer may have claimed the additional exemption for no more than four individuals; thus the maximum additional exemption amount was $2,000.		X					1

Tax provision or special rule	Description	Tax packages supporting disaster relief and recovery: New York Liberty Zone[a]	Katrina Emergency Act[b]	Gulf Opportunity Zone[c]	Kansas disaster relief[d]	Midwest disaster relief[e]	National disaster relief[f]	Number of packages where provision is used
Exclusions and deferrals								
36. Exclusion of certain cancellations of indebtedness	Individuals whose principal residence was located in the Hurricane Katrina core disaster area or certain portions of the Midwestern disaster area on the date that a disaster was declared may generally exclude any nonbusiness debt from gross income, such as a mortgage, that is discharged by an applicable entity on or after the applicable disaster date for an established time period. If the individual's primary residence was located in the Hurricane Katrina disaster area (outside the core disaster area) or other portions of the Midwestern disaster area, the individual must also have had an economic loss because of the disaster.		X			X		2
37. Extension of replacement period for nonrecognition of gain	A taxpayer may have elected not to recognize gain with respect to property that was involuntarily converted, or destroyed, if the taxpayer acquired qualified replacement property within an applicable period, which is typically 2 years. The replacement period for property that was involuntarily converted in certain disaster areas is 5 years after the end of the taxable year in which a gain is realized. Substantially all of the use of the replacement property must be within the affected area.	X	X		X	X		4

		Tax packages supporting disaster relief and recovery						
Tax provision or special rule	Description	New York Liberty Zone[a]	Katrina Emergency Act[b]	Gulf Opportunity Zone[c]	Kansas disaster relief[d]	Midwest disaster relief[e]	National disaster relief[f]	Number of packages where provision is used
38. Housing relief for individuals through employer-provided housing exclusion	The provision provided a temporary income exclusion for the value of in-kind lodging provided for a month to a qualified employee (and the employee's spouse or dependents) affected by certain disasters by or on behalf of a qualified employer. The amount of the exclusion for any month for which lodging is furnished could not have exceeded $600. The exclusion did not apply for purposes of Social Security and Medicare taxes or unemployment tax.			X		X		2
39. Mileage reimbursement to charitable volunteers excluded from gross income	Under the provision, reimbursement by charitable organizations to a volunteer for the costs of using a passenger automobile in providing donated services to charity for relief of certain disasters was excludable from the gross income of the volunteer. The reimbursement was allowed up to an amount that did not exceed the business standard mileage rate prescribed for business use.		X			X		2
Special rules for use of retirement funds								
40. Tax-favored withdrawals from retirement plans	The provision provided an exception to the 10 percent early withdrawal tax in the case of a qualified distribution of up to $100,000 from a qualified retirement plan, such as a 401(k) plan), a 403(b) annuity, or an IRA. Income from a qualified distribution may have been included in income ratably over 3 years, and the amount of a qualified distribution may have been recontributed to an eligible retirement plan within 3 years.		X	X	X	X		4

Tax provision or special rule	Description	Tax packages supporting disaster relief and recovery: New York Liberty Zone[a]	Katrina Emergency Act[b]	Gulf Opportunity Zone[c]	Kansas disaster relief[d]	Midwest disaster relief[e]	National disaster relief[f]	Number of packages where provision is used
41. Recontributions of withdrawals for cancelled home purchases	In general, under the provision, a qualified distribution received from certain retirement plans in order to purchase a home in certain disaster areas may be recontributed to such plans in certain circumstances. The provision applies to an individual who receives a qualified distribution that was to be used to purchase or construct a principal residence in a disaster area, but the residence is not purchased or constructed on account of the disaster.		X	X	X	X		4
42. Loans from qualified plans to individuals sustaining an economic loss	Under this provision, residents whose principal residence was located in designated disaster areas and who suffered economic loss as a result of such disasters may borrow up to $100,000 from their employer plan. In addition to increasing the aggregate plan loan limit from the usual $50,000, the provision also relaxed other requirements relating to plan loans.		X	X	X	X		4
43. Plan amendments relating to disaster relief	The provision permits certain retirement plan amendments made pursuant to changes made under Section 1400Q of the Internal Revenue Code, or regulations issued there under, to be retroactively effective. In order for this treatment to apply, the plan amendment is required to be made on or before the last day of the first plan year beginning on or after January 1, 2007, or such later date as provided by the Secretary of the Treasury. Governmental plans are given an additional 2 years in which to make required plan amendments.		X	X	X	X		4

		Tax packages supporting disaster relief and recovery						
Tax provision or special rule	**Description**	**New York Liberty Zone[a]**	**Katrina Emergency Act[b]**	**Gulf Opportunity Zone[c]**	**Kansas disaster relief[d]**	**Midwest disaster relief[e]**	**National disaster relief[f]**	**Number of packages where provision is used**
Miscellaneous provisions								
44. Required exercise of IRS administrative authority	The Secretary of the Treasury was required to provide certain administrative relief to taxpayers affected by certain presidentially declared disasters. Such relief allows for postponement of actions required by law, such as filing tax returns, paying taxes, or filing a claim for credit or refund of tax, for an applicable period of time following a disaster.		X	X				2
45. Secretarial authority to make adjustments regarding taxpayer and dependency status	The provision authorized the Secretary of the Treasury to make such adjustments in the application of federal tax laws to ensure that taxpayers did not lose any deduction or credit or experience a change of filing status by reason of temporary relocations caused by applicable disasters. Any adjustments made under this provision must insure that an individual is not taken into account by more than one taxpayer with respect to the same tax benefit.		X	X		X		3
Total provisions by disaster relief packages		7	19	33	13	26	8	(h)

Sources: GAO analysis based on IRS and JCT documentation; see appendix I for a more detailed explanation of our methodology and sources.

[a]The New York Liberty Zone package of tax provisions was enacted by the Job Creation and Worker Assistance Act of 2002 (Pub. L. No. 107-147), and targeted areas of Lower Manhattan affected by terrorist attacks occurring on September 11, 2001. On enactment, CBO and JCT projected total revenue effects of $5,029 million for the disaster provisions for fiscal years 2002 through 2012.

[b]The Katrina Emergency Act package was enacted by the Katrina Emergency Tax Relief Act of 2005 (Pub. L. No. 109-73), and targeted the Hurricane Katrina disaster area (consisting of the states of Alabama, Florida, Louisiana, and Mississippi), including core disaster areas determined by the President to warrant individual or individual and public assistance from the federal government following Hurricane Katrina in August 2005. On enactment, JCT projected total budget effects of $6,109 million for fiscal years 2006 through 2015.

[c]The Gulf Opportunity Zone package was enacted by the Gulf Opportunity (GO) Zone Act of 2005 (Pub. L. No. 109-135). Counties and parishes in Alabama, Florida, Louisiana, Mississippi and Texas that warranted additional, long-term federal assistance following Hurricanes Katrina, Rita and Wilma in 2005 were designated as Katrina, Rita and/or Wilma GO Zones. Portions of the Katrina and Rita GO Zones overlapped with counties and parishes eligible for relief under the Katrina Emergency Tax Relief Act. The Gulf Opportunity Zone tax package also included some nondisaster-related tax provisions: election to treat combat pay as earned income for purposes of the Earned Income Tax Credit; modifications of suspension of interest and penalties where IRS fails to contact taxpayer; authority for undercover operations; disclosure of tax information to facilitate combined employment tax reporting; disclosure of return information regarding terrorist activities; disclosure of return information to carry out contingent repayment of student loans; and various tax technical corrections. On enactment, JCT projected total budget effects of $8,715 million for the disaster provisions for fiscal years 2006 through 2015.

[d]The Kansas disaster relief package was enacted by the Food, Conservation, and Energy Act of 2008 (Pub. L. No. 110-246). The Kansas disaster relief package targeted 24 counties in Kansas affected by storms and tornadoes that began on May 4, 2007. On enactment, JCT projected total revenue effects of $63 million for the disaster provisions for fiscal years 2008 though 2018.

[e]The Midwest disaster relief package was enacted by the Emergency Economic Stabilization Act of 2008, Energy Improvement and Extension Act of 2008, and Tax Extenders and the Alternative Minimum Tax Relief Act of 2008 (Pub. L. No. 110-343). The Midwest disaster relief package targeted selected counties in 10 states affected by tornadoes, severe storms and flooding occurring from May 20-July 31, 2008. The listed components associated with the Midwest disaster relief package do not include rules outlining IRS reporting requirements for contributions to disaster relief; these rules apply for tax returns due after December 31, 2008. On enactment, JCT projected total revenue effects of $4,576 million for the Midwest disaster provisions for fiscal years 2009 through 2018.

[f]The National disaster relief package was enacted by the Emergency Economic Stabilization Act of 2008, Energy Improvement and Extension Act of 2008, and Tax Extenders and the Alternative Minimum Tax Relief Act of 2008 (Pub. L. No. 110-343). The National disaster relief package targeted individuals and businesses located in any geography declared a disaster area in the United States during tax years 2008 and 2009. Certain provisions of the National Disaster Relief Act of 2008 do not apply to the Midwest disaster areas because the Heartland and Hurricane Ike Disaster Relief Act, part of the same legislation that resulted in the National Disaster Relief Act, provides other tax benefits. On enactment, JCT projected total revenue effects of $8,091 million for fiscal years 2009 through 2018.

[g]The provisions relating to additional first-year depreciation, increased expensing under section 179, and the 5-year carryback of net operating losses attributable to casualty losses, depreciation, or amortization did not apply with respect to certain property. Specifically, the provisions did not apply with respect to any private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises. The provisions also did not apply with respect to any gambling or animal racing property.

[h]The numbers of provisions across the six disaster relief packages exceeds the total number of provisions because some tax provisions and special rules were part of more than one disaster package.

Appendix VII: Potential Duplication, Overlap, and Fragmentation among Economic Development Spending Programs

In March 2011 and more recently in May 2011, we reported on the potential for duplication among 80 federal economic development programs at four agencies—the Departments of Commerce (Commerce), Housing and Urban Development (HUD), and Agriculture (USDA) and the Small Business Administration (SBA).[119] According to the agencies, funding provided for these 80 programs in fiscal year 2010 amounted to $6.2 billion, of which about $2.9 billion was for economic development efforts, largely in the form of grants, loan guarantees, and direct loans. Some of these 80 programs can fund a variety of activities, including such noneconomic development activities as rehabilitating housing and building community parks.

Our work as of May 2011 suggested that the design of each of these 80 economic development programs appears to overlap with that of at least one other spending program in terms of the economic development activity that they are authorized to fund, as shown in table 12. For example, 35 programs can fund infrastructure, and 27 programs can fund commercial buildings. Some of the 80 economic development programs are targeted to economically distressed areas.

Table 12: Economic Development Programs by Agency

	Number of programs by agency				
Activity	**Commerce**	**HUD[a]**	**SBA**	**USDA[b]**	**Total**
Entrepreneurial efforts	9	12	19	14	54
Infrastructure	4	12	1	18	35
Plans and strategies	7	13	13	7	40
Commercial buildings	4	12	4	7	27
New markets	6	10	6	6	28
Telecommunications	3	11	2	8	24
Business incubators	5	12		7	24
Industrial parks	5	11		5	21
Tourism	5	10		4	19

Source: GAO-11-477R.

[a]HUD did not identify Empowerment Zones among its economic development programs.

[119] See GAO-11-318SP and GAO-11-477R. The latter provides additional details on each of the 80 economic development programs, including administering agency, funding received in fiscal year 2010, economic activities eligible for funding, area served based on population density, primary recipients targeted by program, and award type.

[b]USDA identified Empowerment Zones among its economic development programs and supporting each of the nine economic development activities.

In February 2012, we reported our findings to date on overlap and fragmentation among 53 economic development programs that support entrepreneurial efforts.[120] Based on a review of the missions and other related program information for these 53 programs, we determined that these programs overlap based not only on their shared purpose of serving entrepreneurs but also on the type of assistance they offer. Much of the overlap and fragmentation among these 53 programs is concentrated among programs that support economically distressed and disadvantaged businesses. In ongoing work that will be published as a separate report, we plan to examine the extent of potential duplication among the 53 programs.

[120] See GAO-12-342SP. The number of programs administered by Commerce, HUD, SBA, and USDA that were identified in GAO-11-477R decreased from 54 to 53 because Commerce merged two minority business center programs.

Appendix VIII: Comments from the Department of the Treasury

DEPARTMENT OF THE TREASURY
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND
601 THIRTEENTH STREET, NW, SUITE 200 SOUTH
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DIRECTOR

January 19, 2012

Mr. Michael Brostek
Director, Tax Issues
U. S. Government Accountability Office
441 G Street N.W.
Washington, DC 20548

Dear Mr. Brostek:

Thank you for providing the Community Development Financial Institutions (CDFI) Fund with the opportunity to comment on the draft GAO report, "Community Development, Limited Information on the Use and Effectiveness of Tax Expenditures Could Be Mitigated Through Congressional Attention" (GAO-12-262) (hereafter, the Report).

We appreciate your team's familiarity with the New Markets Tax Credit (NMTC) Program's primary objective of spurring new or increased investments into operating businesses[1] and real estate projects[2] located in low-income communities.

As with other evaluations that the GAO has conducted of the NMTC Program, the CDFI Fund has responded to the GAO's current observations and recommendations, including:

- Collecting additional information on sale price, fees, and the amount of residual value to be left in qualified active low-income community businesses (QALICBs) at the end of the 7-year credit period;
- Updating the GAO on the CDFI Fund's on-going improvements in its Community Investment Impact System (that collects all outcome data on a project-level basis) and highlighting how this data collection system actually does provide an analytical basis to track multiple investment sources and to separately "attribute or prorate results" based on different funding sources;
- Providing the GAO with several suggestions on other resources available to review the effectiveness of the NMTC Program, including the Urban Institute's comprehensive literature review available on the CDFI Fund's website (http://www.cdfifund.gov/impact_we_make/research/NMTCLitReview.asp) and

[1] Operating business investments may be used for business expansion, working capital, equipment purchase or rental, or commercial real estate development or improvement.

[2] Real estate projects investments may include developments with tenants for office and retail space, manufacturing, housing, and community facilities, among other eligible uses.

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"Using New Markets Tax Credits to Mitigate the Impact of Foreclosures on Communities," by Anna Steiger, Federal Reserve Bank of Boston, Community Development INVESTMENT REVIEW, San Francisco Federal Reserve Bank, Vol. 5, Issue 1, 2009; and

- Updating the GAO on an evaluation of the NMTC Program currently being conducted by the Urban Institute.

We would like to draw your attention to Table 4 on page 24 of the Report that indicates that "NMTCs generally may not be used with LIHTCs." In fact, by law the NMTCs ***cannot*** be combined with the Low-Income Housing Tax Credit (LIHTC). This is an important distinction to make when reading the GAO analysis of the responses of NMTC and LIHTC investors to GAO's survey about their use of each of these tax credits for CRA compliance purposes, as noted on page 26 of the Report. Indeed, use of these two tax credits for CRA purposes should be mutually exclusive, but the language on page 26 could be inferred to suggest otherwise.

The Report also indicates on page 14 that the NMTC Program (and several other tax expenditures) "resemble grants in that an agency ….. selects the qualifying communities or projects to receive the limited allocation available." The CDFI Fund does not agree with this observation and encourages the GAO to review question #34 in the New Markets Tax Credit 2011 Application Q&A, which makes it clear that the CDFI Fund does not underwrite and make awards to specific projects, but rather makes awards to Community Development Entities targeting eligible Low-Income areas.[3]

Furthermore, the CDFI Fund continues to have strong reservations with the GAO's recommendation, on page 44 of the Report, that "Congress should consider offering grants in lieu of credits" if it chooses to extend the NMTC Program beyond 2011. The GAO originally offered this as a Recommendation to Congress as part of its 2010 evaluation of the NMTC Program, and the CDFI Fund articulated several concerns in its response letter to that report. These concerns continue to be relevant, and we would encourage GAO to give further consideration to similar concerns raised to GAO in a separate letter submitted by a NMTC industry trade association.

With respect to comments about the CDFI Fund's data collection system in Table 6 (on page 32), the CDFI Fund would like to note that it has shared with the GAO the CDFI

[3] "The CDFI Fund does not expect that an *Applicant* will necessarily complete any or all of the projects discussed as part of a general pipeline in its application. The CDFI Fund recognizes that some projects may become infeasible and new opportunities may arise. However, the CDFI Fund does expect that the *Applicant* will complete projects that are consistent with the business strategy outlined in Section 1 of the application and achieve community impacts consistent with the impacts highlighted by the Applicant in Section 2 of the Application. The purpose of Question 20 is for the *Applicant* to illustrate the types of projects it intends to finance with its *NMTC Allocation*, to demonstrate an understanding about what types of projects are compatible with the intent of the NMTC Program, and to indicate how NMTC financing fits into the overall capital stack of the projects it undertakes. This section also allows the *Applicant* to demonstrate that it is able to identify and underwrite viable NMTC projects.

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Fund's proposal under an Office of Management and Budget (OMB) evaluation initiative to develop impact measuring tools that would have provided standard benchmarking and estimation techniques for calculating jobs and other outcomes for reporting allocatees. Moreover, we would like to reiterate, as noted in our letter of July 14, 2011 and our email correspondence of October 26, 2011, that, as result of focus groups, we have devised methods to facilitate coordinated reporting for multiple investments in the same project, as well as means to address changes in capturing the scope and phasing of projects.

We should note that the CDFI Fund's ten years of experience in gathering detailed performance data on the NMTC Program provides a useful perspective in assessing the methodological challenges of evaluating such tax expenditure programs. We believe that there are some important lessons to be learned about how to manage detailed, financial and geographic data on the community and economic development projects involving multiple sources of funding, especially given that project addresses can be sub-divided, project scope can be expanded, and project phasing can be changed. We welcome additional discussions about best practices and lessons learned related to performance measurements.

Finally, the Report focuses on *community development* and the effectiveness of federal tax expenditures. While the NMTC has proven itself to be a catalyst for many community development initiatives and outcomes, it is also an *economic development* program aimed at attracting private capital into low-income communities with high rates of poverty and unemployment. It is in this light that the CDFI Fund has committed resources to systematically evaluate the impacts of the NMTC Program.

In closing, we thank you for the opportunity to review and comment on the Report, in its current draft form. We appreciate the GAO's ongoing efforts to help improve and strengthen performance measurement and evaluation of community and economic development programs.

Sincerely,

Donna J. Gambrell
Director

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Appendix IX: GAO Contact and Staff Acknowledgments

GAO Contact

Michael Brostek, (202) 512-9110, or brostekm@gao.gov

Staff Acknowledgments

In addition to the contact named above MaryLynn Sergent, Assistant Director; Elizabeth Curda; Jeffrey DeMarco; Edward Nannenhorn; Melanie Papasian; Mark Ryan; and Sabrina Streagle made key contributions to this report.

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